



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

**PROPOSED GAS DISTRIBUTION
CONNECTION POLICY**

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1 INTRODUCTION

Under the Gas (Interim) (Regulation) Act, 2002, the Commission for Energy Regulation (“the Commission”) is responsible for regulating charges in the natural gas market. This includes charges for gas transmission, distribution and supply to final customers. In the case of transmission and distribution the Commission’s functions extend to regulating charges for both the use of and connection to transmission and distribution pipeline systems respectively.

In carrying out its functions the Commission is required to:

- Secure the continuity, security and quality of supplies of natural gas;
- Secure that there is sufficient capacity in the natural gas system to enable reasonable expectations of demand to be met;
- Promote competition in the supply of natural gas;
- Act in a non-discriminatory manner, such that the Commission does not discriminate unfairly between holders of licences, consents and Bord Gáis Éireann (BGÉ);
- Protect the interests of final customers of gas.

This document sets out the Commission’s proposal on the policy for connection to any natural gas distribution system, to apply from 1st October 2003. This proposal will form the basis for regulations to be developed and published by the Commission. This connection policy proposal for the Irish natural gas distribution network has been developed to ensure that:

- the principles of the customer connection charges are applied consistently to each group of customers, irrespective of the ownership of the distribution network or where they are connected to the Network;
- customer connection charges are designed to ensure that customer transportation tariffs recover costs from both the distribution network and the gas connection itself in the medium term;
- customer connection charges are cost reflective;
- investment appraisals for all network extensions are based on an NPV economic test that ensures that tariff revenues recover the costs for all the tiers of the distribution network that are utilised;

- the connection policy accommodates the possible introduction of distribution competition by enabling separate NPV calculations for both upstream spine mains and downstream new development distribution networks. In the event of distribution competition, the policy also maintains a consistent approach to customer connection charges and the appropriate recovery of costs for all the distribution asset tiers utilised by the competitive connections.

The policy covers two specific areas:

- Section 2 - Customer Connection Charges;
- Section 3 - Investment Appraisal Methodologies.

2 CUSTOMER CONNECTION CHARGES

The principles of these charges are applied consistently for each customer group throughout Ireland, irrespective of whichever company owns the Network, or the location of the connection on the distribution network.

The customer groups are:

- Existing Housing;
- New Housing Developments;
- Existing Industrial & Commercial (I&C i.e. non-residential);
- New I&C.

Any contribution from the customer is offset against the asset values added to the regulated asset base.

2.1 Existing Housing (including small developments of 1, 2 or 3 houses)

This customer group, once connected, tend to remain gas consumers and provide a long term contribution to the distribution network. A connection allowance is therefore applied to incentivise these customers to convert to gas. The customer allowance proposed is the equivalent to ensure an average break even of the NPV within 10 years. The costs included in the NPV calculation are all attributable capital expenditures (CAPEX) and operating expenditures (OPEX). The revenue to be included is the full distribution tariff over 10 years for an average consumption of 16,000kWh. As the number of existing customer connections is high (around 10,000 per annum), it is appropriate for a single average allowance to be calculated for all existing housing customers based on the average costs and revenues.

By subtracting this allowance from the average cost of a 15 metres service, a standard charge for an existing housing customer can be calculated.

Any incremental costs for a service longer than 15 metres are paid for by the customer.

BGE are being requested to develop proposals for standard charges adopting the above principles. These proposals shall include charges

for different property types and the incremental cost if the length exceeds 15 metres.

2.2 New Housing Developments

Connections to new housing developments are commissioned by housing developers, normally via an infrastructure agreement that commits the developer to ensure all houses in the development use gas for space heating. The installation of the gas infrastructure at the time of development and utilising trenches excavated by the house builder, normally provides a low cost connection.

The charges for connection for new housing are therefore based on an economic test over 20 years for the whole development, and the housing developer contributes any negative NPV. The details of the NPV test to be applied are outlined in Section 3 and ensures that the tariff recovers the costs of all tiers of the distribution network that are utilised by the housing development.

2.3 Existing I&C Customers

The policy for charges for connection of existing I&C customers to the distribution network is consistent with the proposed Transmission Connection Policy. A minimum charge of 25% of the full connection cost is applicable plus a contribution, if required, to ensure that the NPV of the cost of the connection, offset by the contribution, breaks even after 7 years. The costs included in the economic test are the attributable CAPEX and OPEX required to meet the customer's load profile. This policy provides an early contribution to cost recovery of the upstream distribution assets, in addition to recovering the costs of connection. Individual connection cost calculations are anticipated for large I&C customers, but as proposed for existing housing customers, standard contribution charges based on average costings may be appropriate for small I&C customers.

2.4 New I&C Customers with a choice of location

In line with the proposed Transmission Connection Policy, these customers contribute 100% to the attributable CAPEX costs of connection, and therefore their tariff charges immediately recover the costs of all distribution assets utilised.

3. INVESTMENT APPRAISAL METHODOLOGIES

The investment appraisal methodologies outlined below are applied to extensions of the distribution network. The methodologies are all based on the standard NPV economic test, however in some cases, only a proportion of the ‘all the way’ distribution transportation tariffs are to be incorporated in the income stream of the economic test. This is designed to ensure there is adequate recovery of costs from all tiers of the distribution network utilised. The income revenues in the NPV calculations also include the customer contributions outlined in Section 2.

3.1 Investment Appraisals for New Towns Connected to the Transmission Network

The economic test for these investments are designed to recover the attributable CAPEX and OPEX for all the assets (including spine mains, local distribution networks, services and meters) that are required for all new gas consumers that are reasonably expected to connect to the new gas distribution network.

As the investment includes all the distribution assets utilised by the connections, then the full distribution transportation tariff shall be included in the NPV calculations for a period of 20 years for residential and 7 years for I&C. Additionally, the customer contributions from existing housing and I&C connections should also be included in the revenues. Any resulting negative NPV should be paid by the new housing developers.

3.2. Investment Appraisals for Network Extensions Connected to an Existing Distribution Spine Main

These network extensions are typically for new housing developments together with one off existing housing and I&C customers from existing distribution mains.

The economic test for these investments should recover all the attributable CAPEX and OPEX for the network extension assets to be constructed and concurrently enabling the tariff from these connected customers to recover costs from the distribution assets utilised upstream of the connection to network extension. It is therefore proposed that only a proportion (e.g. 60%) of the ‘all the way’ distribution tariff is allowed in establishing the income in the NPV

calculations. This will ensure that a proportion of the tariff (40% in the above case) recovers costs from the distribution assets upstream of the connection to the network extension. A revenue period of 20 years for domestic housing and 7 years for I&C is applied. Customer connection contributions (in line with Section 2) from customers directly connected to the network extension are also included as income revenues. Any negative NPV should be recovered from the new housing developers.

It is proposed that the proportional split of the distribution tariff is based on the statistical average of where these types of network extensions have been connected to the distribution network. The proportional split of the tariff will then be based on the average proportion of the 'upstream' distribution assets utilised by network extensions to new housing.

