Clarifications to the Connections Policy

The Bord Gáis Networks (BGN) Connections Policy[1] sets out the terms and conditions applicable to customers connecting to the natural gas network. BGN has proposed clarifications to the current Connections Policy[2].

- The first clarification is in relation to payment options for new Medium and Small I&C customers who require a Large Network Connection Agreement (LNCA).
- The second clarification is in relation to the allocation of reinforcement costs for new I&C customers.

The two clarifications are set out in detail in the sections below.

[1] http://www.cer.ie/cerdocs/cer06032.pdf

[2] The current Bord Gaís Networks (BGN) Connections Policy was implemented by BGN in April 2006 following a direction from the Commission for Energy Regulation in accordance with Section 14(3)(b)(i) of the Gas (Interim) Regulation Act 2002

Clarification to the BGN Connections Policy with respect to Standard Contribution Payment options for Medium and Small IC customers who require a Large Network Connection Agreement (LNCA)

Introduction:

The aim of this clarification is to set out a number of options through which a Medium and Small I&C customer who requires a Large Network Connection Agreement (LNCA) may elect to pay the standard contribution for their connection. A new customer is required to sign a Large Network Connection Agreement (LNCA) where the total cost of the connection less the contribution paid is greater than €250k.

Connection Policy:

The current BGN Connections Policy states that Medium and Small I&C customers are required to make a standard contribution of 30% of the estimated full pipeline and ancillary equipment (including AGI) capital costs attributable to meeting the load and pressure requirements of the facility. This includes the present value of any attributable upstream (deep) reinforcement costs. They are also required to pay a supplemental "economic test" contribution.

The actual connection costs, over and above the standard contribution and any supplemental economic test contribution, are recovered through general tariff payments i.e. actual costs less contribution is capitalised to the Regulated Asset Base (RAB).

More Specifically, these new customers are required to pay a standard contribution of 30% of the connection cost estimate including a level of contingency set at 25%[3] for transmission connections and 10% for distribution connections. They also pay a supplemental contribution based on a 7 year economic test as per the NPV financial appraisal in the Connections Policy.

The outstanding actual costs, over and above the standard contributions plus supplemental economic contributions, are recovered through general tariff payments from the customer. The customer is also required to book capacity and provide financial security for a sufficient period to ensure recovery of the outstanding costs.

Post execution of the LNCA, BGN establishes a detailed scope for the Transmission element of the project and request tenders for various aspects of the works i.e. construction and materials. A control budget is then established.

[3] 25% contingency reflects the uncertainty on price and lack of detailed scope definition at the estimate stage. The level of uncertainty is less with distribution costs as the scope is well defined and large elements of the costs are fixed in advance i.e. period contracts.

Reasons for Proposed Change:

- Inconsistency in the level of contingency applied
- Feedback from customers during the negotiation of LNCAs

New Additional Options:

In future customers entering into an LNCA will be offered 2 additional options for paying for the standard contribution of the transmission element of their connections, as well as the current option available. This would give the customer the following 3 options:

1. Current practice: The customer pays 30% of the centreline estimate plus 25% contingency, as detailed in the Current Practice section above.

The following new options shall be offered:

2. **Actual Price**. The customer chooses to initially pay the standard contribution of 30% of the centreline estimate plus 10% contingency with a reconciliation taking place once the actual costs are known. Initially the customer pays a standard contribution of 30% of the estimated cost of connection plus 10% contingency. Once the actual costs are known on completion of the connection the customer's initial standard contribution shall be reconciled against the actual costs. Therefore in effect the customer pays 30% of the actual costs. The outstanding actual costs are recouped through general tariff payments.

3. **Fixed Price.** The customer pays a standard contribution of 30% based on the control budget once it is established. This option allows customers to fix their standard contribution once the control budget is established. The customer pays the standard contribution of 30% based on the control budget plus a contingency of 10%. The outstanding actual costs are recouped through general tariff payments. The LNCA will contain an obligation on the customer to pay the standard contribution once the control budget is established.

Clarification to the BGN Connections Policy with respect to the Allocation of Reinforcement Costs

Introduction

Under the BGN Connections Policy, Large I&C customers are required to make payments equal to the full pipeline and Above Ground Installation (AGI) capital costs attributable to meeting the load and pressure requirements of the facility in question. Such costs include the present value of any attributable upstream (deep) reinforcement costs.

All Medium and Small I&C customers are required to make a standard contribution of 30% of the estimated full pipeline and ancillary equipment (including AGI) capital costs attributable to meeting the load and pressure requirements of the facility in question including the present value of any attributable upstream (deep) reinforcement costs.

This paper outlines in further detail the application of the policy with respect to the allocation of any attributable upstream (deep) reinforcement costs when new reinforcement requirements are identified as part of a new connection from either the transmission or distribution network and sets a threshold for the application of the policy. Below this threshold reinforcement costs are addressed as part of the overall system planning process.

Allocation of Reinforcement Costs

It is imperative from a policy perspective that there is a clear identification of the attributable upstream reinforcement costs to the customer. Reinforcements can be identified through consulting the BGN Development Plan[4] for both the Transmission and Distribution Network. This is a plan of works to be carried out in future periods which identifies reinforcements, network extensions and other planned connections. The Development Plan examines expected load growth and reinforcement requirements and the timings thereof are outlined in the Plan.

Example

Consider a customer who intends to locate a factory in a town which is connected to the network. The size of the proposed load is such that the pressure and/or the available capacity criteria would be breached in the network, thus triggering the reinforcement requirement. The present value of the cost of the reinforcement is €20m. The shallow connection cost is €3m.

[4] For the purposes of the Development Plan;
The National Network Capacity Report (2006 – 2013) is used for Distribution
Allowed Capex 2007 – 2012 and the Gas Capacity Statement is used for Transmission.

Scenario 1:

In this scenario the reinforcement is identified in the Development Plan, to occur in 2012. The present value of the reinforcement is €20m. The connection would advance the planned reinforcement by 4 years to 2008. The attributable upstream reinforcement cost in this case is the cost of accelerating the reinforcement by 4 years.

A Large I&C customer will pay upfront for the full cost of the connection (€3m) plus the present value of the cost of accelerating the timing of this reinforcement by 4 years.

A Medium/Small I&C or Institutional I&C customer will pay 30% upfront for the direct cost of the connection (circa €1m) plus 30% of the present value of the cost of accelerating the timing of this reinforcement by 4 years. They will also pay a supplemental "economic test" contribution if required. The outstanding costs, both shallow and deep, will be recouped through the RAB via capacity payments.

In both cases the cost of the reinforcement is absorbed earlier into the RAB than what was originally envisaged in the Development Plan. The cost of the acceleration is the difference in the financing costs of advancing the reinforcement by the 4 years. The rest of the network users should be kept cost neutral with respect to the acceleration, i.e. not be exposed to any additional costs as a result of bringing the reinforcement forward. They will be exposed to the early onset of the depreciation costs which will be treated as normal depreciation of an asset via the RAB.

Scenario 2:

In this scenario the reinforcement is not highlighted in either the Transmission or Distribution Development Plan. In this case the attributable upstream reinforcement cost is the total cost of the reinforcement.

A Large I&C customer will pay the full connection cost (€3m) upfront for the direct cost of the connection plus the full cost of the upstream reinforcement (€20m).

A Medium/Small I&C or institutional I&C customer will pay 30% (circa €1m) upfront for the direct cost of the connection plus 30% (€6m) of the present value of the upstream cost of the reinforcement plus any supplemental contribution if required. The other 70% (circa €16m) of the costs, both shallow and deep, would be recouped from capacity payments.

Application of Policy

This policy applies to all connections whose load exceeds the LDM (57.5 GWh) threshold. Below this threshold all reinforcement costs are addressed as part of the overall system planning process and the costs will be allocated to either the Transmission and/or Distribution RAB as appropriate.

Conclusion

In the event that the reinforcement has already been identified in the Development Plan, then the attributable upstream reinforcement cost is the cost of accelerating the reinforcement i.e. a Large I&C pays 100% of the cost of acceleration and a Medium and Small I&C pays 30% of the cost of acceleration. The outstanding reinforcement costs are allocated to the RAB.

In the event that the reinforcement was not identified in the Development Plan, then the attributable upstream reinforcement cost is the total cost of reinforcement. The Large I&C pays 100% of the total cost of the reinforcement and a Medium and Small I&C pays 30% of the total cost of the reinforcement plus a supplemental contribution if required. The other 70% of the costs are recouped from capacity payments.

A de minimus threshold of 57.5 GWh is applied below which all reinforcement costs are addressed as part of the overall system planning process.