Approved amendments to the GNI Connections Policy

Decision Paper

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The Commission for Energy Regulation,
The Exchange,
Belgard Square North,
Tallaght,
Dublin 24.

www.cer.ie
The Gas Networks Ireland (GNI) Network Development Plan 2014-2023\(^1\) indicates that aggregate annual demand across the system is expected to fall by 6% over a ten year period. Given that the gas network costs are largely fixed, all other things being equal, this declining demand would lead to an increase in unit network tariffs in the long run, and ultimately consumer bills.

In January 2015, the CER issued a Consultation Paper\(^2\) on GNI’s proposals to amend the Connections Policy. The proposals from GNI aim to stimulate an increase in gas demand while not requiring significant infrastructural investment.

This paper (‘Decision Paper’) sets out the CER’s position with regard to the proposals submitted by GNI.

**Target Audience:**

This Decision Paper is for the attention of energy customers, members of the public, the energy industry, and all other interested parties.

**Related Documents:**

- CER Connections Policy Consultation CER15018;
- GNI Proposed Connections Policy Amendments CER15018(a);
- GNI Connections Policy CER15018(b); and

\(^1\) [GNI Network Development Plan 2014-2023](#)

\(^2\) [CER Connections Policy Consultation](#)
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1.0 Introduction

1.1 The Commission for Energy Regulation

The Commission for Energy Regulation (CER) is Ireland's independent energy and water regulator. The CER was established in 1999 and now has a wide range of economic, customer protection and safety responsibilities in energy. The CER is also the regulator of Ireland’s public water and wastewater system.

The CER was established and granted regulatory powers over the electricity market under the *Electricity Regulation Act 1999*. The *Gas (Interim) (Regulation) Act 2002* expanded the CER’s jurisdiction to include regulation of the natural gas market. The CER is working to ensure that consumers benefit from regulation and the introduction of competition in the energy sectors.

As part of its role, the CER jointly regulates the all-island wholesale Single Electricity Market (SEM) with the Utility Regulator in Belfast. The SEM is governed by a decision-making body known as the SEM Committee, consisting of the CER, the Utility Regulator and an independent member. The overall aim of the CER’s economic role is to protect the interests of energy customers. The CER has an important related function in customer protection by resolving complaints that customers have with energy companies.

The CER’s core focus in safety is to protect lives and property across a range of areas in the energy sector. This includes safety regulation of electrical contractors, gas installers and gas pipelines. In addition the CER is the safety regulator of upstream petroleum safety extraction and exploration activities, including on-shore and off-shore gas and oil.

In 2014, the CER was appointed as Ireland's economic regulator of the Irish public water and wastewater sector. Further information on the CER’s role and relevant legislation can be found on the CER’s website at [www.cer.ie](http://www.cer.ie).

1.2 Background to this Decision Paper

The GNI Network Development Plan 2014-2023\(^3\) indicates that aggregate annual demand across the system is expected to fall by 6% over a ten year period. Given that the gas network costs are largely fixed, all other things being equal, this declining demand would lead to an increase in unit network tariffs in the long run, and ultimately consumer bills. To address this situation, GNI have put forward a number of proposals aimed at stimulating demand efficiently (without significant addition of infrastructure). This included proposed amendments to their existing Connections Policy. The CER

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\(^3\) GNI Network Development Plan 2014-2023
published a number of GNI proposals in this regard in January 2015\(^4\) aimed at stimulating demand efficiently i.e. without significant additional network infrastructure. GNI’s Proposed Connections Policy Amendments were geared toward increasing numbers of users of the network and increasing throughput on the system in a way that is expected to bring benefit to the existing and future customer base.

GNI have indicated that their proposed amendments to the GNI Connections Policy are one part of a demand side strategy, known broadly as GNI’s “Infill Strategy”. This strategy aims, inter alia, to increase penetration of the gas network in a cost effective manner. The CER welcomes in principle, such a strategy, subject to a full evaluation, which could form part of the overall approach for the next price control period (PC4) and beyond.

1.2.1 **Treatment of connections to new customers**

A key aspect of GNI’s work relates to the connection of new customers to the gas grid. When a customer connects to the grid, it is often the case that they are not required to pay the full cost of the new connection up front. It is taken that they remunerate their connection cost via network tariffs over time.

The treatment varies with the size of the connection and the parameters for this are set out in the GNI Connections Policy.\(^5\) The GNI Connections Policy seeks to ensure that any upfront payments plus future transportation tariffs paid by the customer cover connection costs in the medium term. Recovery of connection costs is split between upfront charges, supplemental charges (based on an economic test) and tariffs. With most new connections some of the assets required to construct the connection are added to GNI’s Regulated Asset Base (‘RAB’).\(^6\) As the RAB increases, the revenues required to remunerate the RAB also increase. If a new connection does not result in increased revenue, then all other things being equal, the tariffs increase.

It is important that the CER ensures for all customers’ benefit, that additions to the RAB are efficient and that there is a reasonable opportunity that the newly connected customer remunerates their connection over a reasonable period.

To ensure that new connections are remunerated and to minimise the risk exposure of the general customer base, the GNI Connections Policy puts in place an appraisal process (economic test) and financial security thresholds. The input parameters of appraisals of new connections and the requirements for financial security are key parts of the GNI Connections Policy. Setting the right parameters for the appraisal of new

\(^4\) GNI Proposed Connections Policy Amendments CER15018(a)

\(^5\) GNI Connections Policy CER15018(b)

\(^6\) The RAB is a measure of the net value (Gross spend minus depreciation) of a utility’s allowed assets used in the operation of its regulated activities. Only efficient capital spend on assets is allowed to accrue in the RAB as the CER reserves the right not to include capital spend on inefficient assets in the RAB.
connections is an important way that the CER regulates the addition of new assets onto the RAB.

1.2.2 Consultation Process for this Decision Paper

In 2014, GNI highlighted a range of areas relating to the GNI Connections Policy which they believed could be amended in order to increase the number of customers connected to the gas network, in particular, making it easier for I&C customers to connect to the network.

Over the course of that year, the CER and GNI held a number of meetings where these issues were discussed and initial proposals raised. These discussions were aimed at developing an ‘in-fill’ policy, or in other words, how GNI could exploit the opportunities of the existing network better which necessitated a minimum of new infrastructure.

In late 2014, GNI submitted finalised proposals to the CER for consultation. It is important to note that while the CER interacted with GNI during the development of these proposals, the proposals that were consulted upon were solely GNI’s proposals.

The consultation process closed in March 2015, with the CER receiving 16 responses. Respondents to the Consultation were:

- Bord Gáis Energy;
- Charleville Chamber;
- Cré;
- ESB;
- Farmgas Community Partners;
- Gas Networks Ireland;
- Glanbia PLC;
- Green Gas;
- Green Generation Ltd;
- Irish Bioenergy Association;
- Karyon Biotech Ltd;
- North Cork Co-Op Creameries Ltd;
- Renewable Gas Forum Ireland;
- Vayu Energy;
- Western Development Commission; and
- One confidential respondent.

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7 GNI Proposed Connection Policy Amendments CER15018(a)
A summary of the consultation responses are published alongside this Decision Paper in CER/15/228.

Also, the consultation responses are published along with this Decision. The respondents were broadly supportive of the proposals put forward by GNI.

1.3 Purpose and Scope of this Decision Paper

1.3.1 Purpose of this Decision Paper

The CER’s requirement to approve the charges for seeking access to the system stems from Section 10A of the 1976 Gas Act (as amended). This requirement is given effect via the CER’s approval of the GNI Connections Policy.

This Decision Paper sets out CER decisions on proposals made by Gas Networks Ireland (GNI) in December 2014 to amend the GNI Connections Policy. GNI’s proposals were geared towards facilitating connections to the existing gas network while minimising the need for further infrastructure investment by GNI. Bringing additional economically efficient demand onto the system increases throughput on the system and may have the effect of reducing tariffs for users in the long run. The CER consulted on these proposals in January 2015. The GNI Connections Policy sets out the policy applied by GNI in making connections to the transmission and distribution gas network. It specifically sets out the detailed criteria for the evaluation of extensions to the gas network, including extensions to towns not currently served by natural gas. The previous GNI Connections Policy was approved by the CER in 2006 and while some minor changes have taken place since 2006, the document has remained for the most part unchanged. The CER’s requirement to approve the charges for seeking access to the system stems from Section 10A of the 1976 Gas Act (as amended).

1.3.2 Scope of this Decision Paper

This Decision Paper includes a number of amendments to existing areas of the GNI Connections Policy, such as:

- Amendments to Financial Security Criteria;
- Inclusion of Transmission Revenue in appraisals of new potential connections;
- Amendments of Institutional I&C Customers List; and
- Removal of Domestic connection fee in certain circumstances.

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8 GNI Proposed Connection Policy Amendments CER15018(a)
9 GNI Connections Policy CER15018(b)
10 CER Introduction to GNI Connections Policy Proposals CER15018
This Decision Paper also approves the addition of new areas to the GNI Connections Policy including:

- Introduction of a ‘Suburbs’ Policy; and
- Treatment of Group Sites.

1.4 Structure of Decision Paper

The Decision Paper is structured as follows:

- Section 1 sets out the background to this Decision Paper;
- Section 2 sets out the CER’s decision on each of the proposals\(^{11}\) put forward by GNI in their Proposed Connection Policy Amendments CER15018(a); and
- Section 3 summarises the CER’s decisions and outlines the next steps following this Decision Paper.

This Decision Paper should be read in conjunction with the revised GNI Connections Policy which has been updated in accordance with this Decision Paper and is available on the GNI website.\(^ {12}\)

1.5 Customer impact of this Decision Paper

The CER’s view is that the changes to the GNI Connections Policy will, in the medium term, increase throughput on the network and put downward pressure on the network tariffs element of consumer bills. There are a number of benefits with an increasing load on the gas network. With an increase in the number of gas consumers, the operating expenses of the network are spread across a larger customer base. This results in economies of scale being achieved and a lower network tariff rate for existing customers. Also by seeking to reduce barriers to new connections, new customers that otherwise might not have considered connecting or might have been dissuaded from connecting to the gas network get the benefits of natural gas.

As this Decision Paper is focused primarily on the removal of barriers to new connections, the uptake of new connections will largely be driven by customer response; as such there is no ex ante quantitative analysis carried out on the expected impact of this decision. However, there will be regular 6 monthly reports on the impact of the changes and the uptake by customers. GNI will also prepare and submit a formal report in 3 year’s time outlining any further proposed changes at that time.

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\(^{11}\) For each proposal there is a short summary of the proposal, the rationale for any proposed change, any comments of note raised in the responses to the Consultation, and finally the CER’s decision.

\(^{12}\) GNI Connections Policy
As noted earlier, GNI have indicated that their proposed amendments to the GNI Connections Policy are one part of a demand side strategy, known broadly as GNI’s “Infill Strategy”. Implementation of any further proposals pursuant to such a strategy may include quantitative metrics and/or incentives on GNI. Such matters will be considered in the light of any subsequent proposals that GNI might make further to their “Infill Strategy”.
2.0 CER Decisions

As set out in Section 1, in late 2014, GNI submitted a number of proposed amendments to the current GNI Connections Policy with the aim of stimulating increased gas demand efficiently, without exposing the gas customer to unreasonable levels of risk. The proposals were in the following areas:

1. Amendment to Financial Security (FS) Criteria;
2. Inclusion of transmission revenue in all appraisals;
3. Extension of the list of Institutional I&C customers;
4. Proposals on Existing Gas Areas;
5. Group Sites (different entities, same corridor);
6. Group Sites (same entity, different sites); and
7. Treatment of CNG connections.

GNI’s proposals are summarised in section 2.1 to 2.8 along with the CER’s decisions to each proposal.

The CER has decided to accept some of the proposed changes to the GNI Connections Policy and not accept others at this time. The CER will continue to monitor the effect of the changes to the GNI Connections Policy through regular reports provided by GNI. These reports will be provided every six months and will highlight the up to date effectiveness or otherwise of the changes. The CER is also directing GNI to prepare a formal report evaluating the effectiveness of the changes, the report to be submitted to the CER with any further amendment proposals in 3 years (submitted by August 31st 2018).
2.1 Proposal 1 – Amendments to Financial Security Criteria

Financial security (FS) is provided by gas customers to GNI to cover any outstanding monies relating to their connection. In other words, if a customer has paid an up-front contribution of 30% for the connection, the customer must provide a ‘promise’ to GNI (normally in the form of a parent company guarantee, a letter of credit or money placed on deposit) that the balance of their connection cost (in this case 70%) will be remunerated. While it is acknowledged that the time and financial costs associated with getting FS are significant, it is considered appropriate that additions to the RAB are underpinned appropriately.

Where the FS threshold is met, new connections are also required to sign up to a Large Network Connection Agreement (LNCA), which involves making a commitment to a level of throughput (usage) guaranteed to cover the cost of the Residual Amount. Where an appraisal shows that a connection is not going to remunerate itself over the time-horizon of the appraisal, a supplemental charge is required.

Although one respondent suggested that a separate consultation process should be held on the FS Policy, as it has a direct impact on new connections, the CER considers it appropriate to consider the impact of FS at this time. GNI have made a number of proposals relating to FS criteria, these proposals include:

- FS Threshold;
- Tiered Threshold; and
- Connection related FS Credit Ratings.

The above proposals are discussed in section 2.1.1 to 2.1.3.

Separately, one confidential respondent raised the issue of VAT in the FS calculation. This is discussed in Section 2.1.4.

2.1.1 Financial Security Threshold

As it stands, customers whose connections cost greater than €250,000 must provide FS to GNI for the portion of their connection that is not covered by an up-front payment. The level at which FS is required was set in 2006 at €250,000. GNI proposed that this be increased to €500,000 as, in their view, the current level is too low.

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13 For simplicity through the text, the upfront contribution is referred to as the ‘Upfront Amount’; the balance of the connection cost which is covered by FS is referred to as the ‘Residual Amount’.

14 In this example, the 30% paid for upfront is not put on the RAB, whereas the remaining 70% is put on the RAB. Thus the general customer faces some risk relating to the 70%.
All respondents who commented on this proposal supported this change, with a number noting that the low threshold creates a barrier to smaller customers connecting to the grid.

The impact of this proposal is that fewer connections will be required to provide FS. This will increase the exposure of the general customer base marginally to the possibility that new connections strand their connection. The likelihood of this is considered to be outweighed by the benefits of this policy change in facilitating additional connections to the grid, and thus putting downward pressure on tariffs. The CER is of the view that this is a proportionate trade-off, which will serve customers’ interests over time.

The CER also recognises that the current threshold is low and is likely to be causing a barrier to seeking a connection among many small and medium sized I&C customers. On this basis, the CER approves the increase in the level of the base threshold for FS, from €250,000 to €500,000. One respondent noted that it would be useful to publish the number of projects over the past 5 years where the current threshold of €250,000 requiring FS to be put in place and also publish similar data had the threshold been set at €500,000. In response, GNI has reported that the current list of connections with FS in place contains no customers with lower cost connections (between €250,000 and €1m). They note however that the threshold of €250,000 (which has been in place since 2006) has been a major factor in creating complexity and discouraging growth among the lower cost connections (between €250,000 and €1m.)

The CER acknowledges that these decisions involve increasing the exposure of the existing customer base; however the expected benefit of increased connections and throughput should bring downward pressure on the network tariffs. This view is in part informed by the fact that in the last ten years, there have been only two occasions when FS has been drawn down by GNI.

2.1.2 Tiered Threshold

GNI proposed creating a tiered threshold for FS, where the sooner a connection “pays off” the initial connection cost, the higher the FS threshold.

This proposal was put forward by GNI on the basis that, all things being equal, a customer with very high usage relative to the cost of their connection is considered a lower-risk connection than a customer with the same connection cost but a lower throughput. As the requirement for FS stems from the principle that it would be inappropriate for the general customer base to be exposed to the risk that a customer will abandon their new connection, the requirement for FS should be flexible to the fact that certain customers will cover their connection costs quicker than other. Where a new connection exposes the general customer to a higher level of risk than another, GNI proposed that the point at which FS is required should reflect this in the form of the tiered thresholds.
Based on expected throughput, GNI are able to establish when a connection will pay for itself (referred to in the GNI Proposals Document as being ‘NPV positive’). GNI proposed that where a connection becomes NPV positive within 3 years, FS should only be required where the connection cost is above €1m. Where a connection becomes NPV positive between 3 years and 7 years, GNI proposed that FS should be required where the cost is greater than €750,000. Where a connection becomes positive in 7 years or more, the requirement for FS becomes active where the connection cost is €500,000 or greater.

None of the consultation responses were opposed to the creation of thresholds for FS, although a number of the biogas industry respondents proposed that the thresholds should be higher.

GNI also proposed increasing the requirement to sign up to a Large Connection Network Agreement (LCNA) in line with the increase in the FS threshold. The CER considers it appropriate to similarly increase the base threshold for the LCNA from €250,000 to €500,000.

One respondent raised three questions on the impact of the changes set out in Proposal 1 of the GNI Proposed Connections Policy Amendments:

- What the change in thresholds would mean for the average appraisal with a connection offer of between €250,000 - €1m?
- How many customer appraisals they anticipate will be affected by the proposed changes? and
- The extent to which the burden reduces for the connecting customer and the consequent impact on the risk for the general gas customer?

While not affecting the individual contribution a customer is required to make, GNI are of the view that the change would make it easier for the customer to progress a connection and sign a standard Connection Agreement. It would eliminate the costs incurred in legal fees and the complexity of arranging FS.

The existing list of connections with FS contains no customers where the exposure is less than €1m.

GNI state that the obligation to enter into a LCNA and provide FS adds significant costs and complexity to the overall resources involved in new connections. FS can also be difficult to obtain for some customers simply due to their banking arrangements. GNI has

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15 Conceptually, a connection is ‘in the red’ (negative) until the Residual Amount has been fully repaid, at which point it becomes ‘positive’. In most instances, customers pay off their connection, become NPV Positive, within 4-5 years. As mentioned above, where a connection does not become positive within the length of the appraisal (7 years for most connections), a supplemental contribution is required.

16 To be clear, even where a connection is such that FS is not required, a Connection Agreement would still be made between GNI and the customer. At present, the Connection Agreement includes a commitment to book a set level of Distribution Supply Point Capacity (SPC) for a period until the connection has been fully remunerated.
provided a number of examples to the CER of missed opportunities due to this issue. GNI are of the view that the general gas customer risk is out-weighted by benefits of incremental load. Due to the obligation to book a *de minimus* level of capacity the risk is limited to a new load shutting down, in this case, the connection would be available for the new tenancy.

The CER approves the creation of a tiered approach to when the requirement for FS and an LNCA applies.

### 2.1.3 Connection-related Financial Security Credit Ratings

The existing FS requirements under the GNI Connections Policy applies equally to new connections and the capacity bookings made by gas suppliers and shippers, despite the fact that the sums of money involved for new connections might be several orders of magnitude smaller than the capacity bookings of gas suppliers and shippers. As noted in GNI’s Proposed Connections Policy Amendments 17, the most often used type of FS is a Letter of Credit from a bank with a minimum credit rating of AA by S&P, and/or AA2 by Moody, and/or AA by Fitch.

Despite the differences in the amounts of money involved, the existing FS requirements requires, where Letters of Credit are used, to use the same financial institutions as shippers and suppliers. While many institutions, including the major banks in Ireland, would have had the necessary credit ratings when the GNI Connections Policy was first approved in 2006, there are only a handful of banks operating in Europe that now have such a rating. The impact of this has been to force relatively small companies to seek a Letter of Credit from some of the major finance houses in Europe. This would not have been foreseen at the time that the GNI Connections Policy was put in place. Considering the relatively small level of moneys involved for the majority of FS in respect of new connections, GNI argue that this does not seem appropriate.

In light of this, GNI proposed to add a specific clause to the FS under the GNI Connections Policy with respect of Letters of Credit for new connections. The import of the new clause is that those seeking Letters of Credit can now deal with financial institutions with a minimum Credit Rating of BBB (S&P), Baa2 (Moody’s), and/or BBB (Fitch).

The CER approves the addition of this clause (essentially allowing Letters of Credit to be accepted from “B rated” institutions see p618 of the GNI Proposals document)19 to the FS

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17 GNI Proposed Connections Policy Amendments CER15018(a)
18 “shall be issued by a Bank with long-term unguaranteed unsubordinated debt rated at least BBB by S&P and/or Baa2 by Moody’s and/or BBB by Fitch and which has total balance sheet assets of not less than €1,000 million (or equivalent in other currencies).”
19 GNI Proposed Connections Policy Amendments CER15018(a)
Policy with respect specifically, and only, to new connections with a FS value less than or equal to €1m.

2.1.4 Inclusion of VAT in Financial Security

In a confidential response, one respondent questioned the inclusion of VAT in the overall level of financial security. The respondent stated that “We do not believe the economic argument to include the VAT element of the project in the financial security is robust and believe the policy should be immediately amended to exclude it. VAT by its nature is a recoverable cost, for a VAT registered business, once paid. We would believe that if GNI does not pay this VAT to Revenue there is no justifiable reason to include it in the FS calculations.”

In response, GNI stated the following:

- “As a taxable person under the VAT Act, GNI must ensure that VAT is chargeable on its supply of capacity & commodity services to Shippers;
- GNI have an obligation to pay this VAT to the revenue;
- It is company policy that VAT is required when Financial Security is being provided for a new connection or a new town anchor load contract;
- FS for VAT has been received from a number of new connections who have understood the requirement of the FS for VAT;
- GNI could be without significant cash flow for an extended period of time as the VAT would need to be paid to Revenue although the payment was not received from the customer;
- Any refund issued by Revenue is made directly to the customer; and
- GNI undertook a review of the requirement in 2013 and advices were the FS was required to include VAT.”

In light of the obligation to charge VAT and the potential cash-flow issues that could arise if there was to financial security for this charge, and considering that this matter was not directly consulted upon in the consultation, the CER considers that it is appropriate to make no change to this aspect of the GNI Connections Policy at this time.
2.2 Proposal 2 – Inclusion of Transmission Revenue in appraisals of potential new connections

Under the existing GNI Connections Policy, for a large number of potential customers, transmission revenues are not included in the appraisal of the potential new connection. In these cases only distribution capacity (Supply Point Capacity or SPC) is included. GNI is of the view that excluding transmission revenues in a new connection’s appraisal understates their contribution to the system. Excluding transmission revenues leads, in some cases, to new customers being required to pay supplemental contributions towards their connection cost, despite creating incremental revenues from capacity bookings greater than the Residual Amount over the seven year appraisal period. GNI’s view is that this discourages some customers from connecting to the grid. On this basis, GNI proposed that transmission revenues are included in appraisals of new connections.

This proposal – inclusion of both exit and entry capacity revenues - has a significant impact on appraisals of new connections. The measure is likely to reduce the likelihood of new connections paying a supplemental contribution when they are a marginal connection under the existing GNI Connections Policy; or have a requirement for FS where the connection is strongly positive. Matters relating to Transmission Exit Capacity and Transmission Entry Capacity are discussed in sections 2.2.1 and 2.2.2 below.

2.2.1 Transmission Exit Capacity Revenue

In August 2013, to address a significant fall-off in GNI’s expected revenues, the CER implemented a decision (CER 13/191) to remove the ability of shippers to transfer exit capacity from one location to another. One impact of this is it can be reasonably expected that for a new connection, there will be an incremental exit capacity booking.

On this basis, GNI proposed that it is appropriate to include exit revenue in the appraisal of potential new connection sites.

To ensure that the inclusion of transmission revenues in the appraisal follows through to the actual booking of capacity, GNI proposed that an obligation to book transmission exit capacity be included in the Connection Agreement, equal to the Supply Point Capacity (SPC) booking (which is already included in the Connection Agreement).

The inclusion of transmission exit capacity revenues in appraisals was widely supported in the consultation responses from potential biogas producers and some users, on the basis that it would facilitate smaller connections. The two Suppliers that responded were in favour of the proposal to include the revenues in the appraisal, but were opposed to the inclusion of an obligation to book exit capacity in the Connection Agreement.

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20 Refers to connections that under the existing GNI Connections Policy are required to pay a supplemental contribution to their connection fee.

There are two issues for the CER to consider here – firstly, whether transmission exit capacity revenues should be included in appraisals, and secondly, whether an obligation to have exit capacity to a certain level should be added.

The CER approves the inclusion of transmission exit capacity in the appraisal on the basis that it is a fuller reflection of the incremental revenues that can be expected to be raised by new customers. The CER approves the addition of an obligation to book transmission exit capacity in the Connection Agreement, equal to the SPC booking as such an obligation would mitigate any incremental risk that might be borne by the general gas customer i.e. for connections which pay the 30% contribution charge and a supplemental charge, a decrease of the supplemental charge should occur as the commercial appraisal will now be improved with the inclusion of transmission revenues. For connections that pay the 30% contribution and are not required to pay a supplemental charge, the result is that the period of time that FS is required will be reduced).

2.2.2 Transmission Entry Capacity Revenue

In addition to transmission exit capacity revenues, GNI also proposed that transmission entry capacity revenues be included in appraisals of potential new connections. In the case of exit capacity, it can be reasonably expected that for a new connection there will be an incremental exit capacity booking. The question is whether a similar statement can be made for entry capacity.

In the GNI Proposed Connections Policy Amendments, GNI noted that from September 2013 to August 2014, the ratio of total entry capacity bookings to exit bookings was around 0.8. Put simply, for each unit of exit capacity booked there was only 0.8 units of entry capacity booked. One factor in this ratio is that shippers can optimise their entry capacity bookings across their full portfolio of sites, there is less optimisation available across the shippers exit sites as capacity is booked individually for each customer.

The most recent information on this proportion suggests that the ratio is slightly lower, at 0.75:1. This proportion was based on the Gas Year 14/15 bookings, and a similar ratio is seen in the GNI 15/16 Transmission Tariff submission. This proportion was also used in the recent CER Decision on the Gas Entry/Exit Methodology Decision Paper.

Respondents that commented upon this proposal were broadly in support of the inclusion of transmission entry capacity revenue in the appraisals, with one party suggesting that a review after implementation would be appropriate.

The CER approves the inclusion of transmission entry capacity in the appraisal on the basis that it is a fuller reflection of the incremental revenues that can be expected to be

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22 GNI are of the view that Moffat is considered the ‘swing’ entry point, and that as it is the marginal source of gas for the Irish system, where a new customer is brought onto the system, their supplier is expected to purchase their additional entry capacity at the Moffat Entry Point.

23 See Gas Entry/Exit Methodology Decision Paper, (CER/15/140), Section 5.1, p.24
raised by new customers. The appraisals are to include entry capacity bookings calculated at 75% of exit capacity bookings.
2.3 Proposal 3 – Amendment of Institutional I&C Customers

Institutional I&C premises are appraised over a 20 year period. This means in practice that such premises have 20 years to become Net Present Value (NPV) positive and such premises are unlikely to have to make a supplementary contribution towards their connection cost on top of the Upfront Amount.

The GNI Connections Policy defines that an Institutional I&C customer is one which “as a result of their load characteristics are likely to remain connected to the network for a longer period of time than a typical commercial enterprise”.

The existing list of such institutions is shown below:

- Schools;
- Third Level Colleges;
- Hospitals;
- Prisons;
- Garda Stations;
- Stadiums;
- Airports (airport specific infrastructure only);
- Railway Stations;
- Museums/Heritage Sites;
- Fire/Ambulance Stations;
- Army Barracks; and
- Government Buildings.

The existing GNI Connections Policy notes that the list may be amended to include “Any other customer in this category classified by [GNI] and approved by the CER”.

While some of the institutions listed above might be privately owned, there is a clear element of public service and/or public good evident across the list. GNI have proposed that the following connection types are added to the list of Institutional I&C Customers:

- Ports;
- Bus Stations;
- Waste Collection Depots;
- Biogas Injection Facilities; and
- Retail CNG Forecourts.

These proposals are discussed in Sections 2.3.1 and Section 2.3.2.
2.3.1 Ports and bus stations

Ports and bus stations meet the criteria to fall within the category of institutional customers as they are generally fixed in their locations for long periods. Their inclusion would be in line with the public service and/or public good nature of the existing list. They can reasonably be expected to remain connected to the network for a longer period of time than a typical commercial enterprise.

No consultation responses were opposed to the addition of these two types of connection to the list, while a number were in favour.

The CER approves the addition of ports and bus stations to the list of Institutional I&C customers under the GNI Connections Policy.

2.3.2 Waste collection depots, Biogas plants, Retail CNG forecourts

The proposal to include waste collection depots, biogas plants and retail CNG forecourts was broadly supported by respondents from the biogas industry, while two respondents were not in favour; suggesting that evidence would be needed to show that CNG will develop as an important transport fuel and stating that they were not convinced of the merits of the proposal.

The CER considers that unlike ports and bus stations discussed in Section 2.3.1, the inclusion of waste collection depots, biogas plants and retail CNG forecourts is not clearly in line with the public service and/or public good element of the existing list. These are more akin to typical commercial ventures and therefore it is not clear that it could reasonably be expected that they would remain connected to the network for a longer period of time than a typical commercial enterprise.

On this basis, there does not appear to be a strong basis for applying a 20 year assessment period to these connections. The CER does not approve inclusion of these premises in the Institutional I&C list at this time, but will remain under review.

Separately the CER is currently planning to issue a decision on CNG licensing and a draft decision on Biogas by the end of 2015.
2.4 Proposal 4 – Proposals on Existing Gas Areas

Under the GNI Proposed Connections Policy Amendments, GNI have made proposals which specifically relate to the issue of ‘in fill’ of the gas network as they are directly related to increasing the concentration of users on the network in targeted areas. This included the introduction of a ‘Suburbs’ Policy and the removal the domestic connection fee in certain circumstances.

The “Suburbs” proposal focuses on local areas that are not served by gas notwithstanding the fact that that the larger town or city in which they are located, is connected to the gas network. GNI also propose that the GNI Connections policy be amended to allow for a waiver of the €250 connection fee that new domestic customers face. This is discussed in sections 2.4.1 and 2.4.2 below.

2.4.1 Introduction of ‘Suburbs’ Policy

GNI argue that the existing GNI Connections Policy does not facilitate the efficient extension of the network into an area within an already connected city/town. In practice, there are some areas within cities that could potentially be the equivalent of a small town. However, there are limited methods of connecting the areas outside of connecting a single customer (using a 7 or 20 year appraisal). This has resulted in potential missed opportunities to grow the network in existing gas areas.

To address this issue, GNI proposed the creation of a ‘suburbs’ policy, which would allow GNI to get into new areas of towns and cities, without the need for a single large I&C customer to cover the cost of the extension. GNI advocate the introduction of a ‘Suburbs’ policy under the following criteria:

- Use the mechanics of the new towns model (see description below) to appraise these projects;
- Where the overall investment <= €1m;
- Where the upstream investment in the network is <=€100k; and
- The largest user is <= 50% of the total projected volumes.

GNI would apply the New Towns model to the ‘suburb’ to reflect the lower risk and broader growth opportunities of an area with a wide range of different potential connection types (small and medium I&C, Institutional list I&C, residential etc.).

No consultation responses were opposed to the proposal.

On the basis that the introduction of a ‘Suburbs’ policy will assist in the enhancing of the gas network and in turn enhance the level of gas consumed the CER approves this proposal.

GNI proposed that such new “Suburbs” would be “scored and appraised by GNI against an annual funding allowance form the CER”. No such allowance exists in PC3, therefore
any proposals on suburbs in the PC3 period should be submitted to the CER for consideration on a case by case basis (as is done for new towns in PC3). Any decision on a potential annual allowance dedicated to the ‘suburbs policy’ will be held over until the PC4 process commences.

One potential consequence of a “suburbs” policy is that domestic premises might form a significant proportion of the expected new connections. There has been an observable trend over the last number of years of reducing consumption by domestic premises, in the light of this CER will engage in further consideration with GNI on the appropriate level of consumption to allow for domestic premises in the new towns and “suburbs” analysis.

2.4.2 Removal of Domestic connection fee in certain circumstances

GNI set out its view in the GNI Proposed Connections Policy Amendments, that there is merit in waiving the domestic connection fee in certain circumstances to increase/accelerate the rate of new domestic connections in new towns or targeted suburbs/regions. GNI state that a removal of the domestic connection fee in these circumstances will assist in customer take up during various campaigns, in particular in the initial drive for new customers when gas first arrives in a new town or suburb.

There were no dissenting views from respondents on this proposal.

The CER accepts that there may be economies of scope in the early period in connecting a new town/suburb; there would be less mobilisation and demobilisation costs as the crews move from one house to another nearby house.

On this basis, the CER will consent to waivers of the connection fee upon request from GNI. It is anticipated that these waivers will be of a temporary and targeted nature, at least in the initial period. Depending on the success or otherwise of these waivers, the CER will then consider if there is merit in a broader application of a waiver scheme.
2.5 Proposal 5 – Group Sites (Different entities, same corridor)

Under the existing GNI Connections Policy, GNI has no facility to offer quotes to groups, or to combine a number of potential customers into a single project quotation. Instead, GNI is limited to offering separate quotes on a case-by-case basis. GNI proposed that the joint cost sharing of a connection between different entities should be encouraged and would allow an approach where a number of entities approach GNI for a connection on the same corridor. These could then be assessed by GNI as ‘Group Sites’. As is noted in GNI’s Proposed Connections Policy Amendments, the principle of full-cost recovery for the connection would remain, but a cost-sharing mechanism would be used to divide the full cost of the connection equitably between the interested parties.

GNI proposed that the cost-sharing mechanism would be flexible and informed by input from the interested customers.

This proposal was widely supported by respondents to the consultation. Additionally one respondent suggested that a mechanism should be put in place to compensate the original entities who sought the connection should others connect subsequently. A similar mechanism is in place where a facility has paid 100% of its connection costs up front, if another entity connects to the same area within 5 years. However it is expected that sites availing of the Group analysis would more likely be in the category that pays 30% upfront and such a mechanism would not apply and as such the CER considers that no change in relation to this particular aspect of the GNI Connections Policy is warranted.

The CER approves the addition of a ‘Group Sites – Different entities, same corridor’ policy to the GNI Connections Policy, on the basis that the facilitating of grouping of sites will provide clarity where multiple potential customers wish to simultaneously connect to the grid. This should also increase the number of gas consumers and in turn place downward pressure on the unit price of gas for all gas customers.
2.6 Proposal 6 – Group Sites (Same entity, different sites)

The existing GNI Connections Policy does not address situations where GNI is approached by an entity seeking a number of connections at different sites at the one time. As it stands, GNI is obliged to appraise the connections on a case-by-case basis. In doing so, the appraisal might show some of the connections NPV negative and thus, supplemental contributions would be required in the case of some of these connections, even if the ‘portfolio’ is positive overall. GNI are of the view that not allowing such a ‘portfolio’ appraisal in such cases could lead to missed opportunities. GNI are particularly aware that this proposal could have a significant impact on the roll-out of CNG infrastructure, as forecourt operators may approach GNI with plans for a number of facilities. The GNI proposal in short is that multiple sites from the same entity would be appraised simultaneously with a single NPV calculation, and a single net contribution calculated in aggregate.

There was broad support from respondents on this proposal.

If this proposal is implemented, then the addition on the NPV negative sites (along with the NPV positive sites) will tend to reduce the benefit of the group. If the proposal is not implemented there is a risk that in treating the negative sites in the group separately (such as by seeking a supplemental contribution for these sites), the group might not proceed with the positive sites.

While there is no way to be certain of potential outcomes, on balance the CER is not convinced that the absence of this proposal will result in significant missed opportunities yet. Given the other changes to the GNI Connections Policy, the CER considers it prudent to see the effect of these changes and to not approve this particular proposal at this time. However, this matter will be kept under ongoing review.
2.7 Proposal 7 – Treatment of Compressed Natural Gas Connections

Under the GNI Proposed Connections Policy Amendments, GNI proposed that “where GNI build the compression and multi-storage equipment, the investment must be remunerated under the principles of the connections policy”. This includes a 30% upfront contribution with an economic appraisal.

This proposal was supported by a sizeable number of respondents, notably all biogas producers, and a number of users. A number of other respondents cautioned against this proposal; two respondents felt that the regulatory treatment of CNG connections was an issue that deserved its own distinct consultation process.

GNI are of the view that in order for Compressed Natural Gas (CNG) to develop in Ireland, a body or entity needs to act as a proponent or ‘champion’. Whether or not one agrees with this, and notwithstanding the significant benefits that CNG use will have to the general customer base through downward pressure on tariffs, it is not apparent that the general customer base should underwrite CNG equipment installed in commercial locations.

GNI would not normally have a role in the installation of equipment on site such as this. In conventional connections, GNI install the physical connection up to the edge of a premises. At the point where the GNI assets meet the customer’s internal pipework, GNI install a meter. Commercially speaking, GNI’s role has traditionally ended ‘at the meter’. Were the compression equipment and holding tanks included in the cost of a gas connection, GNI’s assets would include equipment on the customer’s side of the meter. This would represent a significant change in the regulatory treatment of GNI assets, notably, that the network company’s regulated assets would be no longer strictly speaking limited solely to network assets.

GNI’s proposal would involve a portion of the cost of this equipment going onto the RAB, and being underwritten by the general customer base until such time that the customer’s usage has remunerated the Residual Amount of the connection cost.

In a recent consultation on the licencing arrangements for the supply of CNG (CER/15/051)\textsuperscript{24} the CER noted that from a regulatory perspective, the CER sees no difference between natural gas used for transport (CNG) for a customer’s own use, and gas used for heating or as part of a production process. Following this line of thought, the CER could not agree, for example, to the addition of gas fired boilers to the RAB.

The analogy with gas fired boilers can be developed slightly further. Whereas the connection to the GNI system is an activity that can only be provided by GNI, the provision of boilers is a contestable activity. What this means is that any party, subject to all necessary safety requirements being in place, can offer to supply and install such equipment. As the market can operate freely in the case of gas boilers, there is no need for the CER to regulate that market, or the cost of installation of boilers for that matter.

\textsuperscript{24} Compressed Natural Gas for Transport Licensing Arrangements
The same is true of the compression and buffer-tank equipment required for a CNG installation. As was noted in one of the consultation responses, there are a number of international companies with extensive experience of installing CNG equipment across Europe who may be interested in entering the Irish market.

On the basis of the above, the CER does not approve the proposed amendment to the GNI Connections Policy regarding the inclusion of the compression or buffer-tank equipment on the RAB at this time. The CER notes that a recent CEER paper “The Future Role of DSOs” provides guidance to Regulators regarding the services that DSO’s may provide in instances where these services may potentially be provided by other parties. In this regard, the CER may revisit the issue in light of emerging EU or national policy on CNG.
## 3.0 Conclusion

Following a review of GNI’s proposals and the responses submitted by interested parties, this section provides a brief summary of the CER decisions below.

### 3.1 Decisions

<table>
<thead>
<tr>
<th>Financial Security &amp; LNCA threshold</th>
<th>The CER approves the increase in the level of the base threshold for FS, from €250,000 to €500,000. The CER approves the increase in the level of the base threshold for LNCA from €250,000 to €500,000.</th>
</tr>
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<tbody>
<tr>
<td>Tiered Threshold</td>
<td>The CER approves a tiered approach to the requirement for a LNCA &amp; FS, as set out in Proposal 1.2 of the GNI proposals.</td>
</tr>
<tr>
<td>Connection-related Financial Security Credit Ratings</td>
<td>The CER approves the addition of a clause in the FS with respect specifically to new connections with a value of less than or equal to €1m, which sets out a credit rating for financial institutions providing Letters of Credit of BBB (S&amp;P), Baa2 (Moodys), and BBB (Fitch).</td>
</tr>
<tr>
<td>Inclusion of Transmission Revenue in all appraisals – Exit capacity revenue</td>
<td>The CER approves the inclusion of exit capacity revenues in the appraisal of new connections</td>
</tr>
<tr>
<td>Inclusion of Transmission Revenue in all appraisals – Entry capacity revenue</td>
<td>The CER approves the inclusion of entry capacity revenues (at 0.75 of exit capacity) in the appraisal of new connections.</td>
</tr>
<tr>
<td>Amendment of Institutional I&amp;C Customers</td>
<td>The CER approves the addition of ports and bus stations to the Institutional I&amp;C list. This category of connection will continue to be appraised over a 20 year period.</td>
</tr>
<tr>
<td>Introduction of ‘Suburbs’ Policy</td>
<td>The CER approves the addition of a Suburbs Policy to the GNI Connections Policy, as set out in the GNI proposals.</td>
</tr>
<tr>
<td>Removal of Domestic connection fee in certain circumstances</td>
<td>The CER approves this proposal in principle. These waivers will be of a temporary and targeted nature in the initial period. The success or otherwise of these waivers will be evaluated to see if there is merit in a</td>
</tr>
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broader application of a waiver scheme.

| Group Sites (Different entities, same corridor) | The CER approves the different entities-same corridor Group Sites proposal as set out in the GNI proposals document. |
| Group Sites (Same entity, different sites) | The CER does not approve the same entity-different sites Group Site proposal at this time. |
| Treatment of CNG Connections | The CER does not approve the inclusion of compression equipment or multi-stage storage in the cost of a connection at this time. |

The previous GNI Connections Policy was approved by the CER in 2006 and while some minor changes have taken place since 2006, the document has remained for the most part unchanged. The changes above are geared towards facilitating connections to the existing gas network while minimising the need for further infrastructure investment by GNI. Bringing additional economically efficient demand onto the system will increase throughput on the system and can be expected to have the effect of reducing tariffs for users in the long run.

3.2 Next steps

Based on the decisions set out in this Decision Paper, GNI has prepared an updated (clean and track-changed) GNI Connections Policy which is published on the CER website alongside this Decision. The amendments to the GNI Connections Policy shall take effect from October 1st 2015.

As this Decision Paper is focused primarily on the removal of barriers to new connections, the uptake of new connections will largely be driven by customer response; as such there is no ex ante quantitative analysis carried out on the expected impact of this decision. However, the CER will continue to monitor the effect of the changes to the GNI Connections Policy through regular 6 monthly reports, to be provided by GNI, on the impact of the changes and the uptake by customers. GNI will also prepare a formal report evaluating the effectiveness of the changes. This report will be submitted to the CER with any further amendment proposals in 3 years (submitted by August 31st 2018).

As noted earlier, GNI have indicated that their proposed amendments to the GNI Connections Policy are one part of a demand side strategy, known broadly as GNI’s “Infill Strategy”. The implementation of any further proposals pursuant to such a strategy may include quantitative metrics and/or incentives on GNI to ensure benefits to consumers. Such matters will be considered in the light of any subsequent proposals.
that GNI might make further to their “Infill Strategy”. The CER welcomes in principle, such a strategy, which could form part of the overall approach for the next price control period (PC4) and beyond.

Separately the CER is currently planning to issue a decision on CNG licensing and a draft decision on Biogas by the end of 2015.