Gas Networks Ireland Connections Policy Proposals

Commission for Regulation of Utilities Consultation
Introduction

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

The CRU is today, 24 October 2017, opening a consultation on proposals from Gas Networks Ireland (GNI) to the CRU to amend the current GNI Connections Policy. The proposed amendments will allow for the following:

(i) the connection of renewable natural gas facilities to the natural gas network;

(ii) the appraisal of group sites as part of the GNI Connections Policy.

This consultation publishes a number of proposals submitted by GNI to the CRU regarding the connection of renewable gas production facilities to the gas network.

The publication of the proposals from GNI follows the CRU paper “Renewable Natural Gas Bridging Paper”\(^1\), published in 2016. The paper requested that GNI prepare proposals to allow for the inclusion of renewable natural gas\(^2\) facilities into the existing GNI Connections Policy. In response, GNI has prepared proposals for the connection of renewable natural gas facilities to the natural gas network, which are now the subject of this consultation.

In addition, GNI has requested that the appraisal of group sites for connection to the gas network also be reviewed, currently sites are appraised individually. Grouping sites belonging to the same entity is a potential method of assessing the connection of a number of different sites as a whole instead of separately. The CRU previously rejected the proposal to connect of group sites in 2015, stating that it was not


\(^2\) Sustainably produced or purified Renewable Natural Gas (RNG) includes gas types such as; Biomethane, Synthetic Methane, Methanised Hydrogen, Natural Gas blended Hydrogen, eGas/P2G, “Green Gas”, etc.
convinced that the absence of such a policy would result in lost opportunities. However, the CRU committed to keeping the proposal under review.
Public/ Customer Impact Statement

Renewable gas has the potential to decrease the carbon intensity of the gas network and can also assist in the security of supply of gas. In recognition of this, the CRU requested that GNI prepare a connections policy for the connection of renewable gas facilities to the natural gas network.

The availability of renewable gas will allow users of the natural gas network to decrease their carbon intensity and assist Ireland as it moves to a low carbon economy. Renewable gas is a sustainable source that assists in the continued utilisation of the natural gas network which in turn helps maintain tariffs so that gas remains a competitive fuel source for all gas customers. The CRU is of the view that a balance must be struck between the appropriate connection model for biomethane producers and to ensure that all gas customers are not exposed to too great a risk.

The CRU regulates the activities of GNI and gas undertakings with respect to safety under the Gas Safety Framework (GSF). The connection of renewable gas facilities to the natural gas network is not covered under the current version of the GSF Safety Case Guidelines. The CRU will update the guidelines to reflect this change in order to ensure that the associated risks are properly managed.
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## Glossary of Terms and Abbreviations

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1. Rationale for consultation

1.1 Background

1.1.1 Renewable Gas

In 2013, the CRU published a consultation paper on ‘Biogas injection into the Natural Gas Grid’ which sought the view of the public and industry as to the facilitation of the injection of renewable gas into the natural gas network in Ireland.

The publication of the proposals from GNI follows the CRU paper “Renewable Natural Gas Bridging Paper”, published in 2016. The bridging paper requested that GNI prepare proposals to allow for the inclusion of renewable gas facilities into the existing GNI Connections Policy. In response, GNI has prepared proposals for the connection of renewable gas facilities to the natural gas network, which are now the subject of this consultation.

1.1.2 Group Sites

GNI has also proposed that the appraisal of group sites for connection to the natural gas network be reviewed, currently sites are appraised individually. Grouping sites is a potential method of assessing the connection of a number of different sites belonging to the same entity as a whole instead of separately. The CRU previously rejected the connection of group sites in 2015, stating that it was not convinced that the absence of such a policy would result in lost opportunities. However, the CRU committed to keeping the proposal under review. This consultation is seeking comments on the GNI proposals regarding the appraisal of group sites.

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3 Sustainably produced or purified Renewable Natural Gas (RNG) includes gas types such as; Biomethane, Synthetic Methane, Methanised Hydrogen, Natural Gas blended Hydrogen, eGas/P2G, “Green Gas”, etc.

4 GNI is proposing that multiple sites would be appraised simultaneously under one connection appraisal and one total contribution from the customer to cover the connection of all of the sites within the group.
1.1.3 Legislative Basis

Under S11(s) of the Energy Act 2016, the CRU is to have regard to the need to ensure that grid connection policy takes account of renewable energy policy, including any such policy in relation to community energy projects. Following this consultation process, the CRU will issue a decision paper which will ensure that parties wishing to connect to the natural gas grid will be clear on the process and requirements of doing so.

Information on the CRU’s role and relevant legislation can be found on the CRU’s website at www.cru.ie

1.1.4 Structure of Paper

The structure of this paper is set out as follows:

- Section 1: Introduction
- Section 2: Gas Networks Ireland proposals
- Section 3: CRU consultation questions
- Section 4: Next steps.

1.1.5 Responding to this paper

Responses to this paper are invited, preferably by electronic form to Seamus Byrne sbyrne@cru.ie. Alternatively, responses can be sent to:

Seamus Byrne
The Commission for Regulation of Utilities
Belgard Square North
Tallaght
Dublin 24.
2. Gas Networks Ireland Proposals

2.1 Proposal for consideration

GNI has put forward two proposals for the CRU’s consideration.

2.1.1 Renewable Gas

GNI has made a number of key proposals regarding the connection of renewable natural gas facilities to the natural gas grid, these are:

- Connection costs are recovered over a 15 year period;
- That the appraisal is based on 100% of the connection costs associated with transmission and distribution. GNI propose that exit transmission and distribution revenues associated with the renewable natural gas connection are included as revenue in the appraisal. This is because GNI consider that the introduction of renewable gas will be linked in increased gas consumption:
  - 30% of the total connection cost is to be paid upfront by the producer with the remaining 70% recovered over a 15 year period;
  - Financial security\(^5\) will be provided for the initial 7 years by the producer to cover the costs of the network connection. Financial security will limit the risk to the general gas customer in the event that a renewable gas facility ceases injecting renewable gas into the natural gas network before year 7. GNI do not propose seeking financial security for the period thereafter; and
  - A minimum connection model for renewable gas injection facilities whereby the majority of the equipment is owned by the connected party.

2.1.2 Group Sites

GNI is of the view that it would be advantageous for new customers with multiple sites to have those sites appraised as a group so that the portfolio benefit of connecting a group of sites could be recognised. GNI is proposing that group sites which are owned by the same entity but are situated in different locations should be appraised together and that the economic test\(^6\) would be appraised over 7 years. If the treatment of group sites (same entity, different locations/sites) was formalised via a connections policy change, this would result in the sites being appraised together so that the overall Net Present Value (NPV) is taken into account rather than the individual NPVs for each site, which is the approach taken in the current connections policy. In addition, under the one appraisal one total contribution from the customer(s) would be sought to cover the connection of all of the sites within the group.

\(^6\) The economic test would evaluate the present value of the total cost of the group connection (as defined above plus operating costs, but less the standard 30% contribution) against the present value of the tariff revenue attributable to the facility. The present value in both cases will be evaluated over a 7-year time horizon and using GNI's regulated rate of return as the discount rate.
3. CRU Consultation Questions

The CRU is seeking views from interested parties on GNI’s proposals regarding renewable natural gas connections policy and also GNI’s proposal regarding group sites. Specifically, the CRU is seeking comment from interested parties regarding the following:

- The assessment period of 15 years proposed by GNI;
- The level of financial security proposed by GNI;
- The GNI view regarding the appraisal being based on 100% of costs associated with transmission and distribution;
- The upfront customer contribution proposed by GNI; and
- Whether the proposal regarding group sites is appropriate and should be included in the GNI Connections Policy

3.1 Issues identified by the CRU

The CRU, following a review of the GNI proposals would like to highlight some initial concerns. The CRU is requesting that respondents in their submissions consider the CRU’s current views or any other issues or concerns they may have with the proposals.

3.1.1 Assessment Period

The CRU is of the view that the assessment period proposed by GNI is too long and hence may place too great a risk on the gas customer who will underwrite any shortfall if a renewable gas facility ceased production prior to year 15. The CRU notes the benefits to gas customers outlined by GNI that renewable gas can have. However, unless there is a significant benefit to all gas customers, the CRU is not minded to approving an appraisal period of 15 years as it is not consistent with the existing
connection arrangements in the GNI Connections Policy. The CRU notes that existing small Industrial and Commercial (I&C) connections are assessed over a 7 year period and the CRU is of the view that a seven year assessment may be more appropriate for renewable gas connections as opposed to a 15 year assessment. The CRU welcomes comments on this view. The CRU is also seeking views on the GNI proposal regarding a 15 year assessment period and/or any alternative views that respondents may have regarding the appropriate assessment period.

3.1.2 Financial security proposal
GNI is proposing that financial security is in place for 7 years with the economic viability of the connection assessed over 15 years. The CRU is of the view that financial security should be in place for the length of the assessment period to ensure that all gas customers are protected as much as possible from variations in gas tariffs. The CRU welcomes comments on this view or any alternative views that respondents may have.

3.1.3 Connection costs
GNI is of the view that it is appropriate for the appraisal to be based on 100% of the connection costs associated with transmission and distribution, the CRU is of the view that this approach is reasonable. GNI propose that 100% of the entry revenue from the connection is used in the appraisal, the CRU is of the view that this approach is reasonable. GNI also propose that 50% of transmission exit revenue and 50% of distribution exit revenue will be associated with the connection. GNI's rationale for using 50% of the transmission and distribution exit revenue is that it is a conservative estimate of the increased demand in the long term. The CRU has inferred from the GNI proposal that GNI consider that the presence of renewable gas will lead to incremental demand growth. GNI in their proposal is assuming a 50% demand growth per unit of renewable gas, The CRU is not convinced that any incremental demand growth should be considered. The CRU is of the view that if total gas demand remains static then renewable gas will not result in increased gas throughput, renewable gas
may simply result in a decrease in imported/indigenous natural gas. The CRU welcomes responses on this view or any evidence to support the GNI proposal.

3.1.4 Upfront payment

The CRU notes the varying upfront payments that are currently in place in different jurisdictions. The CRU notes that the proposed upfront payment is in line with existing upfront payment arrangements for small connections in the GNI Connections Policy. The CRU is cognisant that a higher upfront payment will result in a reduced risk of tariff variation for all gas customers. However, the CRU is also cognisant that a higher upfront payment may result in some renewable gas facilities not connecting to the natural gas grid. The CRU is interested in whether parties agree that a different upfront charge (e.g. 100% or 50%) should be in place to ensure that all gas customers are not overburdened with an additional risk associated with a renewable gas connection or whether a 30% upfront charge is most appropriate. It is important to note that a 100% upfront charge will negate the requirement for financial security and also provide the least risk to all gas customers.

3.1.5 Group sites

The CRU is (based on information provided by GNI) not convinced that the absence of this proposal will result in significant missed opportunities. The CRU notes the assumptions provided by GNI that potential uptake is at a high level. The CRU is not convinced of the benefit to all gas customers and is concerned that the proposal may lead to inefficient connections which is contrary to some of the objectives of the GNI Connections Policy. The CRU also has a concern regarding the proposed group sites model put forward by GNI. GNI has not provided detail on the maximum cost of the total group connection. The CRU welcomes responses in this regard.
4. Next Steps

The CRU intends to publish a decision on the GNI proposals following a review of responses to this consultation. A final decision is expected by early Q1 2018. This consultation will close on **Tuesday, 21 November, 2017.**

Responses to this paper are invited, preferably by electronic form to Seamus Byrne sbyrne@cru.ie. Alternatively, responses can be sent to:

Seamus Byrne  
The Commission for Regulation of Utilities  
Belgard Square North  
Tallaght  
Dublin 24.