Northern Ireland Assembly

Committee for Enterprise, Trade and Investment

OFFICIAL REPORT (Hansard)

Gas Network Extension: DETI/Utility Regulator Briefing

16 May 2013

NORTHERN IRELAND ASSEMBLY

Committee for Enterprise, Trade and Investment

Gas Network Extension: DETI/Utility Regulator Briefing

16 May 2013

Members present for all or part of the proceedings:
Mr Phil Flanagan (Deputy Chairperson)
Mr Steven Agnew
Mr Gordon Dunne
Mr Stephen Moutray
Mrs Sandra Overend

Witnesses:

Mr Fred Frazer	Department of Enterprise, Trade and Investment
Ms Fiona Hepper	Department of Enterprise, Trade and Investment
Mr Brian McHugh	Northern Ireland Authority for Utility Regulation

The Deputy Chairperson: Briefing the Committee today are Fiona Hepper, director of energy in the Department of Enterprise, Trade and Investment (DETI), Fred Frazer, head of gas markets in DETI, and Brian McHugh, director of gas at the Utility Regulator. Good morning. I am sure that you know how this works, so please make an opening statement, and then members will ask questions.

Ms Fiona Hepper (Department of Enterprise, Trade and Investment): Thank you very much, Mr Chairman. We welcome the opportunity to provide an update on this project. From the papers that you have received, you will be aware that the Department is working very closely with the Utility Regulator to progress this extension. My colleague Brian McHugh is the head of the gas directorate and very much involved in the project from the Northern Ireland Authority for Utility Regulation (NIAUR) side. I will take a few moments to highlight the strategic context for the natural gas extension, take a look back at some of the key actions that brought us to where we are today and then say a bit about the way forward.

The strategic energy framework recognises the scope for extending the availability of natural gas in Northern Ireland, as do the economic strategy, the investment strategy for Northern Ireland and the economy and jobs initiative. The gas network extension will support a number of the Executive's commitments, including the work towards a reduction in greenhouse gas emissions, initiatives aimed at reducing fuel poverty across Northern Ireland and, from the economic dimension, the creation and safeguarding of jobs in these areas.

The extension also sits alongside and complements the Executive's renewable energy strategy, especially in relation to renewable heat. Both are needed because certain geographic areas will always remain off the natural gas network. As the new pipeline will be able to transport biogas, gas extension will have a useful synergy with the renewable agenda and will be future-proofed in that regard. The project is not about ignoring the contributions that renewables will make to a more sustainable energy mix; it is about helping with the transition to renewables through the provision of a lower carbon fuel, while the option remains for adoption of renewables for the domestic and business sectors. It must also be recognised that a number of high energy demand industrial processes need very high temperatures, which only fossil fuels can provide, so it is better to utilise a lower carbon fossil fuel where possible.

I will outline the process of consultation and appraisal. Significant research and analysis considered the need for the extension, provided the economic and technical analysis, and assessed the appropriate level of support for extending the network. Included in that work were a technical and feasibility study carried out jointly by the Department and the Utility Regulator; a public consultation carried out by the Department; and the completion of a strategic outline business case and a more detailed outline business case and economic appraisal in September 2012.

In short, there is support for extending the network from across the industry, including the gas industry, and from the wider public and private sectors. Earlier this year, the Minister sent the Committee an update briefing on the project, and that covered the outcome of the outline business case. I will refresh your memory: it considered a wide range of options for extending the availability of natural gas in Northern Ireland, and, after careful consideration on a monetary and non-monetary basis, identified a preferred economic option for taking gas to the west and north-west. It looked at extension in the context of four strategic objectives: first, to promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland; secondly, to extend the availability of natural gas as a more efficient and potentially cheaper fuel, providing additional fuel choice and thus enabling businesses to improve their competitiveness in an increasingly global market; thirdly, to extend the availability of natural gas as a lower carbon fuel, displacing more polluting fossil fuels and thus providing environmental benefits; and, finally, to enable domestic consumers in the areas considered to connect to natural gas, thus contributing to reductions in fuel poverty.

The construction of the transmission and distribution networks is estimated to cost £200 million in total, although that is, of course, a current estimate. The project will be taken forward in the context of a competitive licence process, which could put downward pressure on the cost. The appraisal noted a net economic benefit for the region of £193 million, with carbon savings alone of £43·2 million. The appraisal concluded that the cost of building the transmission network to serve seven further towns — Dungannon, Coalisland, Cookstown, Magherafelt, Omagh, Enniskillen/Derrylin and Strabane — would be approximately £93 million and that it would not be entirely self-financing. There was a negative net present value on that part of the appraisal, and the appraisal recommended that this was handled partly through the Government subvention of up to a maximum of £32·5 million and partly by an increase in the postalised tariff. The inclusion of the subvention was aimed in part at lowering the cost to consumers. That result on the transmission side was not unexpected. You may recall that all transmission networks built in Northern Ireland to date — the North/South pipeline, the north-west pipeline and the Belfast gas transmission pipeline — have needed some level of financial support. In fact, without that, there would be no gas in Northern Ireland.

The cost of the distribution element is estimated at £110 million. Across the seven towns collectively, the appraisal determined that this element is commercially viable and that no subvention is required. That means that the projected gas volumes in the towns should provide sufficient income to cover the cost of installing and operating the networks over the licence period. Following on from the appropriate scrutiny processes in DETI and the Department of Finance and Personnel (DFP), the Executive gave its approval on 10 January 2013 for the Government subvention of up to £32·5 million towards taking gas to the west and north-west. In line with a number of stakeholders' responses, the Executive believe that it is important to minimise the impact of gas network extension tariffs on gas and electricity consumers. Hence the approved funding is both necessary and welcome. The subvention will help to minimise the burden on households; maximise the potential for businesses in the new licence areas to improve their competitiveness; help to sustain existing jobs; potentially deliver new employment opportunities; and have a beneficial impact on the environment. Some argued that the Government's financial intervention should be targeted at connecting additional consumers in existing licence areas. However, providing a significant tranche of funding in those areas would largely result in more domestic connections because most businesses are now connected. The proposed extension to the west and north-west will provide very significant carbon savings as large business users move on to the gas network, savings that could not be achieved just by connecting further domestic users in existing licence areas.

We must not overlook the importance of lowering costs for significant manufacturing companies in those areas. That will increase their competitiveness, safeguard jobs and give them the opportunity to reinvest significant amounts of money currently being spent on energy. Therefore, it will create new jobs and make the area more attractive for new investment. However, that is not to say that we should ignore the need to connect more domestic consumers in the existing areas. My colleagues might say more on that later. The Department notes that Firmus Energy has been connecting twice the number of properties predicted in its development plan, and those are largely domestic customers. Similarly, Phoenix continues to connect new customers in the Belfast licence areas.

That brings me to the key actions planned for the next stage. NIAUR recently issued a public consultation on the design of the competition for new gas licences, and that is open until the end of May. It also conducted a well-attended workshop in the past few weeks. It is hoped that the competition will result in the awarding of a new licence as early as possible in 2014. The licensee will then have to commence work on network design, seek the necessary planning permission and deal with way leaves and environmental issues. The construction of the new transmission pipelines is expected to commence in 2015. However, that is a challenging timeline. In parallel, the Department has submitted an application to Europe with the aim of securing state-aid approval for the Government subvention, and a full equality impact assessment is being produced.

The roll-out of the gas network to the west and the north-west is a key priority for the Executive and the Utility Regulator. The timetables are challenging, but the benefits, as shown by the appraisal, are worth pursuing.

The Deputy Chairperson: Thanks, Fiona, for that useful update. Is the purpose of extending the gas network to address fuel poverty or to help large manufacturing businesses?

Ms Hepper: A range of issues is covered. The purpose of the extension is multifaceted. It will bring greater fuel choice to consumers, be they householders or businesses. It will provide an option for business in particular to use cleaner, more efficient, cheaper fuel. It will also help to shift the dependence away from coal and oil — the differential between oil and gas prices is quite substantial — and help to alleviate fuel poverty. It will also reduce CO2 emissions by achieving £43·2 million of carbon savings — 87,000 tons — over the period.

The Deputy Chairperson: Over what period?

Ms Hepper: Over the licence period.

The key point is that it will increase the competitiveness of businesses in the west and north-west, which will safeguard existing jobs. Quite a number of companies have been in discussions with us, either on a one-to-one basis or through the Confederation of British Industry, etc, about the significant pressures that they feel because of energy costs. They provided us with figures to show the significant annual savings that they will make. That applies particularly to companies that are branch plants of international companies and are compared with plants in their wider parent company. So this will release some of the money that companies currently spend on energy costs for reinvestment, potentially creating new jobs.

From Invest NI's point of view, it is another tick in the box for foreign direct investment. They can see that there is fuel choice and work out their costings on the basis of a cheaper fuel. It also gives householders another fuel choice, with a significant saving on their annual outgoings. We received some figures from the Consumer Council in the past day or two. It has done some quite detailed analysis of the comparisons between oil and gas, which, I think, it sent to the Committee as well. So it is not about one or the other; it is about the combined impact across the environment, households and businesses.

The Deputy Chairperson: How do you respond — you brought this up in your briefing — to the assertion that if this were about tackling fuel poverty, it would be much better to invest the Executive funding in already licensed areas to try to get more households to connect to the existing gas network because that would give you a much better return?

Ms Hepper: The point is that this is not just about fuel poverty. The extension is about the wider strategic social and economic perspective. It is not that companies are not extending connections in existing licence areas, but people in the new area mainly use oil and coal at present. The figures from the Consumer Council show that the differential between the price of gas and oil is upwards of 30% and rising.

The Deputy Chairperson: What is 30% annually in monetary terms?

Ms Hepper: The Consumer Council's paper shows a difference of between about £600 and £700 annually for an average householder.

The Deputy Chairperson: Is that based on the amount that it would take to heat a home or the average spend in a gas-enabled property?

Ms Hepper: It is based on usage and its calculations on the current retail price of oil. It then works up how much an average household would use.

The Deputy Chairperson: By how much will the extension increase gas and electricity prices for existing customers?

Ms Hepper: The subvention takes the edge off the pricing. There will, however, be an increase in the postalised element of the transmission tariff. Without the subvention, it would be a 12% increase, which equates to about £6 for an average householder. The subvention brings it down to about £3 for that aspect of the tariff.

The Deputy Chairperson: Is that for the transport distribution costs or the overall —

Ms Hepper: That is for the transmission element. Do not forget that the subvention goes towards the transmission only. The economic appraisal found that the gas loads would be sufficient for the distribution side to be self-financing, and those from the industry who had input felt the same. Brian, do you want to say anything further on that?

Mr Brian McHugh (Northern Ireland Authority for Utility Regulation): We will go forward on the basis that the distribution networks are self-financing, so their revenues will cover costs, as they have for Phoenix and Firmus previously.

The Deputy Chairperson: On what take-up rate is that based?

Mr McHugh: A number of models were looked at, but one focused more on industrial and commercial and one focused on domestic, and both were self-financing.

The Deputy Chairperson: In all that work, did any of you go round and knock on doors in Dungannon, Cookstown and Enniskillen to ask whether people would switch to gas if it were made available?

Mr McHugh: The estimates were based on previous experience in towns in Northern Ireland. I do not believe that we knocked on doors.

The Deputy Chairperson: Gas has been here since 1996 and it is now 2013. What is the current take-up rate for gas in enabled areas?

Mr McHugh: So far, it is over 50% for Phoenix, which is the domestic focus model that we propose.

The Deputy Chairperson: Over 50%. Do you mean 51%, 52% —

Mr McHugh: I am not sure of the exact number.

The Deputy Chairperson: Is it much higher than 50% or is it just over 50%?

Mr McHugh: It is just over 50%. However, in 2012, there were over 14,000 connections in Northern Ireland, which is pretty high. The level of connections has been relatively steady. It appears that quite a lot of people convert to gas when their boiler breaks down or when they are renovating their house. So there has been a steady number of connections to gas over the years. In the past couple of years, we have seen a very welcome increase in both the Firmus area and Phoenix area. The appetite for gas is there.

The Deputy Chairperson: What is the predicted take-up in the new licence area?

Mr McHugh: The predicted take-up is in line with the domestic roll-out, so it is a steady build-up over time heading up towards 70%.

The Deputy Chairperson: Seventy per cent?

Mr McHugh: Yes, ultimately, over 40 years.

The Deputy Chairperson: After 15 years, what percentage of households do you anticipate will be connected to this gas network?

Mr McHugh: After 15 years? I would need to come back to you on that.

The Deputy Chairperson: Can you give us your target figures for every five years?

Mr McHugh: Yes.

The Deputy Chairperson: We are told that connecting to the gas network is the best way to address fuel poverty. However, Larne, which has been connected to the gas network since 1996, has a fuel poverty rate of over 40%. How do you square that circle?

Mr Fred Frazer (Department of Enterprise, Trade and Investment): Mr Chairman, that is linked to other factors. Energy is one aspect, but the employment level in an area must also be taken into account, as must the many social factors. Fuel poverty, as you are aware, is not just the result of the cost of energy; it relates to incomes as well.

The Deputy Chairperson: How important was the location of shale gas and the licence awarded in Fermanagh to making the decision to go ahead with the extension of the pipeline?

Ms Hepper: It was not a factor at all. The economic appraisal did not look at that aspect. The appraisal is fully focused on taking gas to these areas. In the technical appraisal, which was done ahead of the economic appraisal, all the pipework is sized to take gas to the area, not to take fracked gas out of the area, if there was any. One reason for that is that very significant work has to be done before there is even a full assessment of what gas is available there. The Executive want this project to be up and running in the next few years. You cannot put on hold or assess the impact of something that may or may not happen. In that regard, this project stands on its own two feet.

The Deputy Chairperson: However, outside the economic appraisal and some of the technical aspects, is it possible that this gas pipeline could be used to take gas out of Fermanagh?

Ms Hepper: No, the pipes would not be the appropriate size. The pipes are sized to take gas to Fermanagh and Tyrone.

The Deputy Chairperson: So there would need to be a new pipe constructed to take gas out of the area.

Ms Hepper: Yes, there would.

The Deputy Chairperson: The Utility Regulator's current consultation states that no organisation or company can build a pipeline unless it has built one within the past five years. Are you keeping that under review or are you determined to keep that stipulation? Phoenix raised that issue with me as a constraint that it would face. A third operator is likely to come in, which would mean that we would have three licence holders, and that may not be the best thing for economies of scale.

Mr McHugh: It is very much a consultation. We are not fixed on any view. We have proposed that, when more than one person is bidding, if someone wants to build a transmission pipeline and can demonstrate their experience of having built one in the past five years, they will be allowed through to the next stage. The concept of having experience when bidding or applying for something is pretty common in tenders. It is not a particularly controversial idea, but people will respond, and their views will be taken on board.

The Deputy Chairperson: How long is it since Phoenix last constructed a pipeline?

Mr McHugh: Phoenix, or British Gas as it was then, constructed the pipeline to Belfast in about 1996.

The Deputy Chairperson: So it is nowhere near the five-year cut-off.

Mr McHugh: Not for building a transmission pipe, no.

The Deputy Chairperson: Have you an update for us on the proposed sales of Phoenix and Firmus?

Mr McHugh: Not much other than what is in the media. Firmus is part of the BGE energy group, which is for sale, and we understand that an information memorandum has gone out to potential investors. Essentially, that process has started, and we anticipate that it should be complete by the end of the year. There has been a lot of media attention and speculation about the sale of Phoenix, and there is a possibility that it will be for sale this year. I am not aware that an information memorandum on that has gone out to investors, but there has been a lot of interest, and people are approaching us for help in understanding the background and the regulatory regime.

Mr Dunne: Thanks very much for giving us a briefing. I have realised that more should be done to encourage people to convert to gas. The information that I have is that, even in the greater Belfast area, the uptake in some towns is 27%, whereas other areas are up at about 48%. How will we convince people in the west of the Province to use gas when we are having difficulty getting people in the east, where gas has been available for a number of years, to do so? What sort of incentive should there be for people to convert to gas?

Mr McHugh: Originally, the anticipation was that people would flock to gas as they had in GB in the 1960s, but that did not happen because oil had arrived, and people were quite satisfied with how oil heated their house and water. Since then, we have put a lot of effort into having a regime that provides significant incentives. We have probably allowed over £50 million in incentives since the start of the gas industry in Northern Ireland, which is a very large amount. As I said earlier, people do not just decide one day to switch to gas. It tends to be a decision made when their oil boiler breaks down or they are renovating their house. There has been a steady switch from oil to gas, with over 160,000 houses now connected in the Phoenix area, and that number continues to grow by over 10,000 a year. We do not believe that there is any magic bullet that will get 50,000 people to switch in one year because there are a number of reasons why people do not want to switch to gas at this point. However, over time, we think that people will switch. Incentives are in place and are working.

Mr Dunne: What are the incentives? I am aware of the oil boiler scrappage scheme, and Phoenix seems to have a scheme. What other initiatives are there?

Mr McHugh: We allow the companies incentives within our price control allowances, which is the over £50 million that I referred to. If Phoenix or Firmus can connect a domestic consumer, an owner-occupier, they will be allowed an amount of money to achieve that and can spend it however they want. They can spend it on advertising — you see the ads on TV — on door-to-door sales or on offering people cash incentives to switch. That is up to the companies. The company is best placed to decide how to spend that money and how to encourage people to switch.

Mr Dunne: Does it concern you that there are towns with 27% uptake in greater Belfast?

Mr McHugh: I am not aware of which areas have 27% uptake, but I imagine that gas is relatively new to them. Overall, uptake is 50%, and, as I said, it continues to grow by about 10,000, or a couple of per cent, a year, and that is the plan. We go through Phoenix's business model as part of our price control. Its plan is for a steady set of connections over the years. Its experience is that that is how the market works. I am not sure that there is anything that we could do to get people to switch instantly to gas. I think that the increase will be steady. The numbers are very healthy, and we have been very happy with them for the past couple of years. From talking to the companies this year, I know that the number switching continues to rise at a very healthy rate.

Mr Dunne: What about social housing? We get lobbied quite a bit by Housing Executive tenants wanting it to switch from oil to gas. How is that managed?

Ms Hepper: As part of our consultations, we have had discussions with staff from the Housing Executive, for which gas is the fuel of choice. Therefore, it has given its support to the project. Some of those figures were built into some of our modelling work. Of course, the Housing Executive will have a plan for when boilers and certain estates are coming up for renewal of their scheme. It is quite keen on the extension and on building that into its plans.

Mr Dunne: So are Housing Executive properties in the west of the Province likely to get gas?

Ms Hepper: It is certainly there as an option over time. The Housing Executive will work up its own appraisals on that, and it has certainly stated that that will be the case.

Mr Dunne: Will east Down be part of the extension?

Ms Hepper: East Down is not part of this particular extension. We covered east Down separately as part of the economic appraisal. The figures for and benefits of bringing gas to east Down are there to be seen. Again, as with bringing gas to the west, the distribution element for towns is self-financing. There is a small shortfall for some of the bigger distribution pipes needed between towns. The gas loads in east Down are not sufficient to merit transmission pipelines, but there are a couple of options for how a shortfall might be —

Mr Dunne: Is a transmission pipe a high-volume —

Ms Hepper: It is the high-pressure pipe needed for larger loads.

Mr Dunne: So is south Down not likely to get it?

Ms Hepper: No, that is not the case. I was about to say that a company could come forward to the regulator now with a proposal for east Down. All it has to do is put together a case and show how it could make that economically attractive. There are ways of doing that: if, for example, you pull different towns into the package, does that make it pass an economic test? Companies can come forward now — correct me if I am wrong, Brian — with a proposal to the regulator, and that would be looked at.

Mr Dunne: Are towns along the Omagh to Enniskillen route, such as Irvinestown and Ballinamallard, likely to be included?

Ms Hepper: If the towns are on the route and it could be proved economical to do so, a spur could be run off the pipeline. Once the transmission pipe is there, that is the backbone.

Mr Dunne: Who takes that initiative? Phoenix is the main company, but who takes the initiative for towns and villages?

Mr McHugh: Anyone can apply to us for a conveyance licence in a new area. That has happened very regularly over the past number of years. We have had quite a number of extensions. Anyone who wishes to have an extension must show that the revenue will cover the cost. In the past couple of years, we have approved Portstewart, Bushmills, Ballyclare, Warrenpoint, Bessbrook and Camlough.

Mr Dunne: Are they in progress?

Mr McHugh: Yes, some of them have been built; some of them are being built. This week, we have gone out to consultation on another extension to Ulster Farm By-Products, which is likely to be approved. It will be a very large user of gas and will obviously get the benefits of gas through the savings. That is another one that we will probably approve next week publicly. So, the gas extension has been going on for a number of years, and it has been very successful in the towns that we have approved. However, it is up to a company to approach us, put together its case and show that the revenues that we collect from these towns will cover the costs. On that basis, we will approve it, as we have approved quite a number.

Mrs Overend: Thank you. That was interesting. As someone from the west, I am supportive of bringing gas there for consumers and businesses to ensure that jobs and the opportunities to expand are available. It is good news from both perspectives.

I have a couple of questions. You have given me something, and I am asking for more. The network stops at Magherafelt in mid-Ulster; is there any chance of extending it northwards in the east Londonderry and Coleraine direction — the A29 there has a lot of towns that could do with gas — or through to Ballymena in kind of a full circle?

Mr Frazer: As my colleague Brian said, any extensions depend on gas loads. If sufficient gas loads are there and a licensee is interested in connecting those to the network and providing gas, so, therefore, it is economic to do so, it is in their interest to do that. Brian has outlined some recent connections. For example the large town of Comber, which was done a few years ago, was not in the original Belfast area. Some smaller towns have also been connected in recent times. So that option is there, but it depends on the economics. Gas cannot go everywhere. Were gas to be supplied to every village or hamlet, the cost of the infrastructure could make gas uneconomic for the wider population. You would not want that.

Mrs Overend: OK. Tell us more about the state aid that has to be applied for in Europe. Do you have concerns that that will be complicated or that there will be a delay in it? Are our three MEPs on board and working on that?

Ms Hepper: State aid is always a fairly lengthy process, so as soon as we had the economic appraisal through the internal DETI process, had DFP approval, and all the internal economists signed up to that, we started the paperwork to get the state aid application in. That was submitted several months ago as what they call a pre-notification. We are waiting for the Commission in Brussels to come back with its first set of questions. Once the Commission is satisfied with that, you immediately put in the formal notification, and the Commission has a short number of weeks in which to turn that round. It is front-loaded, if you like, with the pre-notification —

Mrs Overend: When was that submitted?

Ms Hepper: That was submitted in February, so it should not be too long before we get an indication of questions on that. Then, when the Commission is satisfied, the notification will go through.

Mrs Overend: Do our MEPs have any input in that?

Ms Hepper: No, but we are happy if they would like a briefing on it. It would be part of a scrutiny process by the Commission economists, so it is unlikely that the political dimension would play into that.

Mrs Overend: I just wondered. In the interests of joined-up government, when pipelines go through countryside, do they go across fields or under roads? How do you define exactly where they go? Is it for the company to come up with its proposals?

Ms Hepper: We and the regulator have set out the towns that our work shows it is economical to connect. It will be up to the licensee to draw up plans for how to get from a to b, and they will do that in the most economical way, taking account of obstructions. They will have to work out the way leaves that are needed. So neither the Department nor the regulator will be prescriptive in that, but there will be a role for NIAUR on its own or jointly with the Department to put in engineers to scrutinise that it is being done to the appropriate standard, etc. All the work around that is for the expertise of the licensee, and then, particularly as we are paying a subvention, we will have a role in doing a technical audit. Whether that is done in line with what NIAUR has to do or as one, time will tell. That is how it will be done.

Mrs Overend: It is one of those things where constituents think that if one Department is digging up a newly installed road for putting down gas, all those things need to taken into consideration.

Ms Hepper: We had some discussions with DRD around whether the pipe could go around the A5 when it was being done. At that stage, DRD's plans were relatively well advanced, and it did not want those disrupted. There will be engagement with the relevant authorities at the time that the company starts to do the design. Of course, we will also keep in very good touch with our colleagues on the

Department of the Environment (DOE) side. The Environment Minister is very supportive of this extension, which helps him to meet his targets.

Mrs Overend: So, it is a matter of good communication between Departments, and ongoing communication.

Ms Hepper: It is, yes.

Mr Frazer: Most gas transmission pipelines, the larger pipelines, are laid across agricultural land and are buried. Some are across roads and rivers, as you say. In town centres and urban areas, most of the smaller bore distribution pipes are laid on roadways, but sometimes those are actually thrust bored below the roadway. Sometimes it requires excavation, and that is planned in conjunction with the road authority — and the licensee, obviously.

Mr Moutray: Thank you very much for presenting to us today. Like others, I welcome the roll-out of natural gas to give further choice to consumers and businesses. Fiona, in your presentation, you mentioned that the timescale is challenging, and that always rings a few alarm bells. Will it go through in three years? Is it doable? Also, you said that if one of the gas companies was to extend its licence, that could shorten the time frame for bringing it to east Down. Are there any indications as to by how much?

Ms Hepper: I will do the gas to the west first, and Brian can maybe cover east Down. Any project of this scale will have its risks and bumps in the road, if you pardon the pun. We hope to work alongside the regulator and the licence company to mitigate that as much as possible. The company will have to apply on the transmission side for planning approval, and there will be way leave issues. That having been said, other projects have been done, most recently the South/North pipeline, where things did go quite smoothly. These companies are experienced in how to handle these matters, and they have their processes in place. So we will manage it as best we can, and the Minister is personally very keen that this is done as quickly as possible and that it is done appropriately, with all the correct approvals in place and the correct processes followed. We have to balance both of those things. It is challenging, but the companies that have talked to us and to the regulator so far and which have engaged with the process are keen to engage and to get going. We just have to keep everything moving along. So, Brian — maybe east Down?

Mr McHugh: There are fewer issues with timing in places like east Down or anywhere where there is a distribution extension. We do not have the same planning and way leave issues. So, if we were to receive an application where revenues cover the cost and we were to approve that application, that would take just a matter of months. It would take the company another matter of months to get that built, depending on the exact length of it. Timing is not such a big issue for distribution extensions.

Mr Agnew: Apologies to the Chair and to you for missing your presentation. I have read the brief, so my questions will be based on that. I assume that much of what you said covered what is in the brief. Our subvention from the Government to build the pipeline is £32·5 million, and that is Northern Ireland money. It is from the Executive. We are spending £25 million on the renewable heat incentive, and that was UK money. So, we are spending none of our own money as such on the renewable heat incentive.

Ms Hepper: That is correct. Do not forget that that is the initial tranche of money for renewable heat. The £32·5 million from the Executive for the gas is the total, and that is the maximum that will be spent on this project. The money for renewable heat was additional to the Northern Ireland block. We all welcome that. It is the first block of money for the first part of this CSR period. Thereafter, there has to be more money for that because, do not forget, for anyone who is connected as part of that £25 million, their money runs on, so that there will be further injections of money. So significantly more money will go to the renewable heat initiative, and that is something that we very much welcome. We want to see that rolling out and gathering pace, and a market building up around it.

As I said last time — and I may be straying slightly from your point — we want to get to the 10% target, but that is not our total raison d'être for doing this work on renewable heat. We want to build a market around it; we want the job creation and the supply chains that come out of it. So it is maybe not just as simple as one is getting £30 million, one is getting £25 million and that is a differential, or one came from one pot and one from another. The renewable heat project will certainly have more money coming into it. There is quite a long tail on that, and quite a few more millions will be spent on it. We had that scheme from a cold start; we had to build it from scratch. We now have, on the premium payment domestic side, 840 applications. I am not sure whether you want any figures on that, but we have 840 applications and 790 vouchers live and issued. We are turning those over quite well and we have a commitment, just from our pot of money, of £1·3 million on the domestic side and then the amount that is added on to that.

We are quite pleased with how that scheme is going. The renewable heat incentive is also starting to build up. A number of non-domestics are accredited, and we are working apace on phase 2, which is the system for the domestic, and we will be coming to you with a consultation document that will probably go out over the summer. So we are keeping up the pace on that.

Mr Agnew: It is certainly welcome news that it is working. You mentioned the 10% target for renewable heat by 2020. By 2040 — and I came in at the tail end of this — we will be looking to have 70% of those who have access to gas on the gas network in the extension areas. In those areas, what percentage do you anticipate as having renewables by 2040?

Ms Hepper: It is hard to say. I had a quick look yesterday, but I did not have time to go through all the postcodes of the 840 applications. Between 10% and 20% of them are from people who are already in gas areas, so it is not as though people are not exercising their option to choose. However, I do not have a figure for you that I could —

Mr Agnew: I suppose that, to some extent, the exact figure is not important. My concern is that if you need to make this economically viable, with 70% of people connected to the gas network, to some extent you do not want your renewable energy targets infringing upon it. That would certainly be a concern for me. People say that it is not a choice between gas and renewables, but about diversity of supply. I have no problem with that, but the problem is how and what we incentivise. That is where I have concerns. As I say, whatever company might build this extension, it will not want the Government coming in and saying "That is great. You can have gas, but what we really want you to have is renewables." I am sure that, in that climate, no gas company would invest, and it worries me what message is being sent to investors.

Ms Hepper: There will always be areas — and this is basic economics — where gas will never go. I see them as ripe to come forward for renewable heat. One of the things I said in my presentation was that these new transmission pipelines will be able to take biogas in the future. From the perspective of our renewable agenda, that gives it an element of future-proofing, which is something that we would be keen to see. The companies that we have talked to have all taken note of that, and it is on their agenda as well.

I take your point, but we want to see both those policies delivering. There are people who are already in gas areas who have the choice and are exercising their choice and going for that. That will probably extend further when we get the tariffs for the other technologies that are not yet in place. Maybe some of the bigger industry areas will look at geothermal energy or something like that, and how it develops over time. All those things are on the agenda and we are moving forward with them.

Mr Agnew: I would like you to clear something up for me, because I am still trying to get to the bottom of it. Do you define gas as sustainable energy?

Ms Hepper: Gas is part of the mix. There is renewables, which is everything that we know it as, and gas underpins the level of sustainability. It is not fluid, but —

Mr Agnew: You may be aware of the debate that we had on sustainable energy. We passed a motion calling on the Department to do certain things. It concerned me because I thought that I was voting for one thing, but then the Minister started to refer to gas as sustainable energy, which made me think that I would not want to vote for the motion. She cited the Department of Energy and Climate Change (DECC) as defining gas as sustainable energy. I contacted DECC —

Ms Hepper: No, it is low carbon. There is a low carbon definition and a wider sustainable definition. Sometimes, people get those confused.

Mr Agnew: OK. Well, I was accused of trying to mislead the House in that debate. When the Minister suggested that gas was defined by DECC as sustainable energy, I wanted to make sure that she was not equally confused, perhaps accidentally, which might explain the confusion. I have asked questions in the Assembly but I have never found a DECC definition calling gas sustainable.

It is mentioned in your paper that the extension of the gas network would help us to meet our carbon reduction targets. If we did see a 70% take-up of gas by 2040, what impact would that really have on carbon emissions? I accept that it is lower carbon than oil, but I do not accept that it is low carbon.

Ms Hepper: No, no. The point that we would make in this context is that it is lower carbon and that it is better to have people on that than some of the other carbon fuels.

The appraisal showed that there would be about 43·2 million in carbon savings over the licence time for carbon. Fifty two thousand tons of that would come from businesses —

The Deputy Chairperson: Sorry, Fiona; 43·2 million of what — tons or pounds?

Ms Hepper: Sorry; £43·2 million, and then 52,000 tons of carbon would be saved by businesses and 35,000 tons would be saved by domestic users, amounting to a total of 87,000 tons of carbon a year.

Mr Agnew: I am tempted to ask you what the total would be if 70% of people were on renewables, but you might not have that figure.

Ms Hepper: No, I do not have that.

Mr Agnew: I suspect that it would be considerably higher.

I want to move on to a completely different track. We have seen the System Operation Northern Ireland Ltd report and the concerns about our energy security. If we could have the Moyle interconnector operating at 100% and if we had the North/South interconnector, we could solve those problems.

Obviously the planning issues are outside the Department's control, but what is required to get the Moyle interconnector back up to an operational standard? Is it replacement or repair? To the best of my knowledge, it would need to be replaced, but I do not purport to be an expert. Is there any reason why the Department or the Executive could not put in a subvention there? I would have thought that, at this point, if there is a serious risk of the lights going out, that would be a priority. I do not know whether that risk has been over-egged, but it does seem to be a genuine concern.

Ms Hepper: That would be direct state aid to the company, and it would have to go through that process. However, work is proceeding at a pace on this, and there has been an exchange of correspondence between the Utility Regulator and Mutual Energy in the past few days about the options as to how this will be done. We as a Department are also engaging with the environmental side of the Department of the Environment about one of the potential fixes, which is the bipole fix and the impact that that would have. It would probably require an environmental assessment to be carried out by Mutual Energy. As to the time frame for that, if I recall correctly, that could be in place and give the full 500 megawatts back by —

Mr Frazer: That could be within 18 months.

Ms Hepper: Within 18 months. There is also an option, now that the current fault has been directly isolated, of maybe sending divers down to fix that, but Mutual Energy feels that that fix would not necessarily mean that it should not use one of the other options. That is under way, and we still have the 250 megawatts. It looks as if it could be back, if this bipole works, within 18 months, which would be most welcome.

Mr Agnew: The reason I asked about direct subvention, and I would be interested to hear whether the Utility Regulator's office has any views on this, is that the costs will be borne ultimately by the consumer, as unfortunately happens with all these things.

Ms Hepper: That is the case.

Mr Agnew: It is the reason why I asked about direct subvention, which might lift some of the burden, because we know there are various grid infrastructure upgrades required, including at Moyle. Every time, it comes back to the point that it is not about whether the consumer pays for it, it is how much the consumer pays for it over how long. If we are making a direct subsidy for gas, I wonder why this does not appear to be an option that is being considered.

Mr Frazer: As I said, a number of options are being considered. The ultimate goal is to have new low-voltage cables laid, and therein is the cost. The demand for electricity is much greater than that for gas, for example. It is a more mature industry and, therefore, it is easier for them to bear the cost, albeit nobody likes electricity prices increasing. There is also the issue of state aid, of course.

Mr McHugh: You will not be surprised at my saying that questions about subventions are not questions for the Utility Regulator, but it is true that the costs of solving this problem would be paid by electricity consumers.

Mr Agnew: OK. Thank you.

The Deputy Chairperson: Fiona, £32·5 million of public funding is going in. How many domestic consumers will benefit from this?

Ms Hepper: I think the total number of consumers is around the 34,000 mark.

The Deputy Chairperson: That is around £1,000 per household.

Ms Hepper: You could make that rough calculation, but do not forget that some of those are businesses, and those businesses will have a lot of employees whose jobs will be protected. It is not quite as simple as dividing the two figures, because the total number of people who will benefit from it will be greater than that.

The Deputy Chairperson: There really are three primary arguments being put forward for the extension of the gas network. One of them is about tackling fuel poverty, but the counter-argument that many people would put forward is that if it was genuinely about fuel poverty, the approach taken would be to improve take-up and connectivity in existing gas-enabled areas where people cannot connect to the gas network even though they are in a licensed area. If it was about reducing carbon emissions and helping the environment, which was the other big argument being put forward, surely it might well be better to spend this money on renewables. The third argument made is that it helps business. Is it true that business is really the key driver of this, and it is not about fuel poverty or the environment?

Ms Hepper: It is a mixture of all three. The economic appraisal has shown that the benefits are across all three, albeit not in equal measure. There is no question — I would not deny that there is a big part of this that is about the large employers in the west of the Province and the protecting and safeguarding of those jobs and making the areas attractive for new inward investment. Some of these companies are able to show the multimillion pounds of savings in energy costs of moving from heavy fuel oil to gas because of the type of industry they are in. That is money that can be ploughed back into those companies to help them expand and be more competitive. We see that as a significant bonus in this work.

Mr Frazer: It is fair to say that some of those companies cannot use renewable heat, for example, because the process that they use requires a higher level of heat than renewables can give. Of course, some probably can.

The Deputy Chairperson: Would this decision still have been taken if responsibility for energy policy and energy decisions did not fall within the same Department as responsibility for growing the economy?

Ms Hepper: The economic appraisal is an evidence-based piece of work: it stands on its own two feet. So, if an economist had been taking this forward, whether they were in the Department for Social Development (DSD) or the DOE, all the same factors and all —

The Deputy Chairperson: Economists do not make decisions, Fiona, they make recommendations. It is people who make decisions.

Ms Hepper: Sorry, people? Ministers?

The Deputy Chairperson: You cannot turn around and say that it is an economist that is doing this.

Ms Hepper: No, no. We worked with economists and consultants to produce this economic appraisal.

The Deputy Chairperson: Economists can make anything stand up or fall down. That is the nature of them.

Ms Hepper: The appraisal stands up. It has been through any number of scrutiny processes, and, you know —

The Deputy Chairperson: It has not been through any scrutiny process to say that 70% of people are going to sign up in 40 years. That number has been plucked out of the air.

Ms Hepper: That is based on what is happening in current licence areas and current projections. I would not say that it is a figure that has been picked out of the air. Wherever responsibility for that had sat in government, the same sorts of issues and factors would have had to have been fed into the appraisal. So, I do not think that the fact that it has been done in DETI leads it to a particular answer.

Mr Flanagan: If the Department driving this forward had responsibility for fuel poverty, and that responsibility had not been farmed out to the Department with responsibility for housing, do you think that it might well have decided that it would be better to spend the £32·5 million of public funding on getting more people to connect to gas in gas-enabled areas because it would deliver a better return on reducing fuel poverty?

Ms Hepper: I cannot answer for them, but we have inputs from the likes of the Housing Executive and our colleagues in DSD. They fed into the process and gave their views on the attractions of gas and how the proposal would impact on the Housing Executive stock. If they had been doing the appraisal, they would have been coming to us, rather than the other way around, and we would have been feeding stuff in from the economy side. The environment side would have been doing likewise. So, I am not sure that the appraisal would have turned out to be significantly different.

Mr Flanagan: The economic appraisal would not have turned out any different, because it still would have said that if £32·5 million of public funding is put in and there is 70% take-up, this may well make financial sense. However, when you are doing an economic appraisal, you compare different things, and this is the only option that has been looked at. Has any assessment been done of the impact that connecting more people in gas-enabled areas would have had?

Ms Hepper: That would come from the figures that the regulator already holds.

Mr McHugh: In fuel poverty, one of the important subsets is the Housing Executive. In Belfast, the Housing Executive has connected most of its properties to gas. In the Firmus area, there is a lot of work going on to connect Housing Executive properties to gas. So, there is a lot of good work there, which we very much encourage. So, that subset of the Housing Executive is largely complete in the areas with gas. The extension will allow those Housing Executive consumers for whom fuel poverty is a real issue to connect to gas and enjoy the benefits.

The wider question of fuel poverty beyond that as to who does not have gas and is in fuel poverty and exactly what level of fuel poverty they are in is more difficult. We do not have the detail on exactly who does not have gas. That is something that we are looking to work further on with people like the Consumer Council.

We also have schemes like the Northern Ireland sustainable energy programme (NISEP), which encourages a focus on fuel poverty. A lot of the companies come forward with proposals to switch people who are in fuel poverty from oil to gas. We encourage that. This extension will allow them to look in the new towns for people in fuel poverty to switch from oil to gas and to take advantage of NISEP in that direction. So, I do not think that it is a black and white argument in respect of fuel poverty, given the amount of progress already made in Belfast with Housing Executive properties.

The Deputy Chairperson: If you take the crude figure of only looking at domestic houses, you see that the public purse is funding about £1,000 per household to give people access to gas. There is then about a £2,500 connection charge. Economists told us that the green new deal was not sustainable because people living in fuel poverty could not afford it and would not understand the benefits of investing upfront. So, how can we expect economists to tell us that those people will be able to find £2,500 to make the switch to gas to save what will take a few years to pay back?

Ms Hepper: Take the larger chunks of households in those areas: the Housing Executive will bear the cost of the conversion for the householder, so the householder will pay for the gas they use, rather than the conversion. For householders who have to pay for the conversion scheme themselves, as Brian said, the companies already have incentive schemes in place. They can also access various DSD schemes. If gas companies come forward with options such as interest-free loans, etc, all that would start to play into the mix. However, there is no doubt — we are not hiding this fact — that there is a cost of conversion, but, likewise, if your oil boiler breaks down, you need to pay to have that replaced.

Mr Agnew: On that point, you referred to the Housing Executive and, in doing so, some of those on the lowest incomes, but what about housing associations? Has there been the same take-up among housing associations choosing to transfer from oil to gas, especially given that it looks like at some point — I am not sure how far down the line — our housing stock will be transferred to housing associations? It is maybe hard to compare because a lot of those are newbuilds that may be starting with gas, but is there any evidence of them switching from oil?

Mr McHugh: I know that the companies do work with the housing associations, but I think it is fair to say that, until now, their focus has been on the Housing Executive and on moving a lot of people from oil to gas. As part of the consultation we did on gas to the west, we expected applicants to demonstrate their abilities to work with housing associations and the like. However, we have not had a lot of feedback from the companies on the housing associations or on the issues with the movement from the Housing Executive to housing associations.

Mr Agnew: These things will obviously take time, as will the extension, but by that stage, there could be no Housing Executive houses as such. So, it could be a lot of wasted energy, if you will pardon the pun.

Mrs Overend: At least I got it.

The Deputy Chairperson: The Energy Order 2003 states:

> *"The principal objective of the Department and the Authority in carrying out their respective gas functions is to promote the development and maintenance of an efficient, economic and co-ordinated gas industry".*

If that had not been in the legislation, would we still be going down this road?

Ms Hepper: I think that we would, yes. Obviously, that is there, and it puts a responsibility on the Department and the regulator to do that. However, net of that, I think that the work we have done has shown that there is a benefit across the piece to giving households and businesses that additional fuel choice, and I think that, regardless of that, this project would have been looked at.

The Deputy Chairperson: When are we going to see legislation introduced to offer equal protection to gas, electricity and renewable industries, as well as to protect consumers in the short and long term? Will that be part of the Energy Bill that is coming in this year?

Ms Hepper: The Energy Bill, which will hopefully have its Committee Stage this autumn, will put a duty on the Department to promote renewable heat, but it will not remove the duties on the Department and the regulator in relation to gas at this stage. There is an option of making that time-bound, and I am sure you will want to discuss that when we come forward with the Bill in the autumn.

The Deputy Chairperson: OK. Thanks very much.