

**NATURAL GAS PIPELINE: STRATEGIC
STUDY (P.157/2009) – COMMENTS**

Presented to the States on 12th February 2010
by the Minister for Planning and Environment

NOTE: COMMENTS IN BLACK – MINISTER FOR PLANNING & ENVIRONMENT
COMMENTS IN RED – JERSEY GAS CO. LTD.

1. P.157/2009 proposes that a strategic study should be undertaken by the States to assess the full benefits of providing the Island with a natural gas pipeline.

The report to the proposition argues that benefits would arise in four areas –

- that land currently occupied by Jersey gas assets could be freed up for better uses;
- that customers' bills would be reduced;
- energy Supply security would be increased;
- that the Island's carbon emissions would be reduced.

2. The department does not agree that there is the requirement to undertake another study just to reconsider a gas pipeline. The wider issues in relation to oil and gas facilities are being considered as part of the department's assessment on the future of the East of Albert area, the town regeneration and the energy strategy. As part of this work we are committed to wider master planning across the area and continued working with the fuel companies. However, we do not support this proposition. We would nevertheless endorse an approach to adopt a multidimensional and longer term thinking to the enhancement of the island's environment and continued working with the fuel companies.

[Jersey Gas comment] The original study did not consider the full benefits of a pipeline connection to France. The proposal does not ask for another study, it merely asks for the original study to continue to the next stage i.e. to assess the full range of benefits. Any master plan should look into the option of pipeline connections to France. The pipeline offers the potential for renewable / sustainable energy sources via biogas (gas created from waste).

3. Whilst gas is an important fuel source, we do not consider the fuel source is a long-term one. Clearly the move towards less carbon and more renewable energy is where the Island's energy future lies.

[Jersey Gas comment] A natural gas connection will move the Island towards a lower carbon future immediately. A gas connection to France will also open up future opportunities for renewable energy via biogas .

4. The report references the study on pipelines by the Consultants Pöyry which was commissioned as part of the work to inform the Energy Policy Green Paper. The Pöyry report's overall conclusion that continuing to ship LPG is preferable to a gas pipeline. The Pöyry report does however make a case for an oil/multi fuel pipeline, but recognises that the oil companies are unlikely to make any investment in this area.

[Jersey Gas comment] Paul Garlick, Jersey Gas Managing Director states that, the Planning and Environment Department have not discussed the pipeline option with him and therefore questions if they have discussed the option with the oil companies. Also, we believe it is premature to consider

how to fund the construction, we believe that the next step is as the proposal suggests, to assess the full benefits of a pipeline.

5. The proposition makes a number of suggestions of land that could be released for better use but does not account for the fact that some of it may be contaminated in the same way as Gas Place and thus may be significantly devalued by the need to decontaminate the site. It is also clear to the department that these real estate benefits could be achieved through the reorganisation of how the company operates and is not dependent on a gas pipeline.

[Jersey Gas comment] If land is contaminated it can be remediated, the cost of this could/would be included in the proposed assessment of the benefits. Jersey Gas counters the view that the real estate benefits could be achieved without a pipeline. For example, without a pipeline we would continue to operate our business with LPG and therefore would need the gas storage and production facilities at La Collette. With a gas pipeline connection, we would not need to have a presence at La Collette.

6. It is clear from both the Pöyry report and the comments of Jersey Gas contained in the P.157 report that the cost of pipeline construction would have to be paid by the States, as there is no appetite in the Gas Company to make such an investment. This must raise serious concerns about the call to invest public funds in an enterprise that has no positive payback and where the operating company is not willing to risk its own capital.

[Jersey Gas comment] The comment talks about no positive payback. Again, the proposal is merely to identify the significant benefits not included in the Poyry report. Hence, it is premature to talk about a payback as all of the benefits have not been included. There are various methods by which the pipeline could be funded.

7. The report goes on to argue that payback could be manipulated by not giving customers the assumed lower price that would follow from establishing a natural gas supply. This would entail a pay back charge being placed on each unit of gas coming through the pipeline. This must mean that the second benefit, of reducing customers' bills, is not a real benefit, at least not in the decade or so that it would take to payback the cost of a pipeline.

[Jersey Gas comment] We are confident that the cost of the pipeline could be recovered through tariffs and we would still be able to deliver lower energy bills for island's customers. The reason for this is that a natural gas operation costs significantly less than our current LPG business model. Reference natural gas tariff in the UK and the Isle of Man.

8. The report suggests that a pipeline would improve the Island's energy security of supply. However, continuity of supply needs to be addressed by having strategic reserves but the pipeline is in effect a proxy for LPG importation and whilst there would be no need for gasification plant, this is likely to still be a need for both pressure regulation and storage capacity. Thus even with a pipeline there would be a need to hold several months supply so the Department does not believe that the arguments around land release are straightforward as P.157 suggests. The Pöyry report makes it clear that the land footprint needed to deal with the separation and storage of products coming down a pipeline are not much different to the present situation.

[Jersey Gas comment] The pipeline would offer greater security of supply. The pipeline operation would be much more reliable than the shipping of products. Jersey Gas would not need any on island gas storage for its mains gas customers. We assure people that this is a normal model, pipelines often supply gas to communities and islands without back-up storage facilities. The comments exaggerate the amount of storage of fuel products required, Jersey Gas do not believe that any of the islands energy companies stock "several months of product".

9. Even if it were the case that the pipeline would lead to a lower carbon economy, would this be sufficiently important to merit setting aside the costs outlined above. However there are two facts that mean this is not the case.

[Jersey Gas comment] The lower carbon economy is just one of the many benefits delivered by the pipeline. Other benefits include diversity, security of supply, access to a lower cost fuel, avoided cost of moving the gas storage and production facilities at La Collette and the release of significant parcels of land that would be available for efficient use. The proposals outlines the many and varied benefits and potential suggestions for reducing or sharing the cost of the pipeline. Hence, again the purpose of the proposal is to fully assess all of the benefits of a pipeline option.

10. Firstly the States of Jersey has not yet debated the Energy Policy and so has not adopted a formal position on carbon emission targets. This proposition is therefore running ahead of States Policy and it must surely be more prudent to first take the Energy White Paper before presuming to deliver its assumed objectives which are yet to be adopted.

[Jersey Gas comment] The proposal is a response to the draft energy policy of September 2007. The Planning & Environment Department hold the same opinions as they did in September 2007. Therefore, we expect them to seek to achieve the original objectives of providing secure, affordable and sustainable energy supplies for the island whilst looking to reducing carbon emissions. The pipeline option meets all of the above criteria and has the potential to release land for more efficient purposes and save the taxpayer millions of pounds with regard to the relocation of the fuel storage and gas production facilities at La Collette.

11. Secondly, the argument that burning natural gas would lead to lower carbon emissions than using electricity from France is one that has been promoted by Jersey Gas since the Energy Green Paper was published in 2007 and which has been rejected in numerous meetings between officers of the Gas company and of the States of Jersey. The carbon intensity of electricity used in the green paper is a robust figure that is based on information that Jersey's supplier, EDF, is obliged to submit by law to the International Energy Agency. This will however now be subject to an independent review in 2010 led by the Planning and Environment Department and involving all fuel suppliers and covering all fuel types.

[Jersey Gas comment] Whilst we welcome the independent review, it is disappointing that Planning & Environment allowed the first proposed review, supported by the Environment Scrutiny Panel in March 2009 to be cancelled and then declined Jersey Gas' offer to fund an independent review in September 2009. Jersey Gas is confident that if these reviews had taken place, Planning & Environment would be in a position to see the carbon benefits of a natural gas supply. It is also unfortunate that the Minister has made these comments without personally seeing Jersey Gas' presentation on the carbon intensity on electricity.

12. Finally, and in some respects most significantly, there are the practical difficulties that building a pipeline would entail. The pipeline would have to originate from the French network, tapping in at either Quettetot or Ste-MèreÉglise, then trenched through French countryside to the coast for a distance of 18km and 33km respectively. This would require an extraordinary level of cooperation from the French Authorities to tolerate this level of disruption for Jersey's benefit, particularly when the net result might be a drop in the sales of French electricity to Jersey.

[Jersey Gas comment] We feel that the Minister is overstating the technical and practical difficulties of laying a pipeline. Pipeline construction is commonplace. Pipelines are laid across countries, under the sea, across jurisdictions countries and continents. The pipeline required to supply Jersey would be approximately the same size as the cable link to France. The Poyry report estimated the cost of a pipeline connection to France and hence would have taken into account the practical problems that would be encountered.

13. Taking the pipeline under the sea for 33km is another unknown quantity, the amount of rock to be encountered and trenched through is not quantified and the route would have to be such that it did not encroach on the Ramsar sites of Les Ecréhous and the South East coast. As such the tentative costings of £30-32 million put forward by Pöyry are probably optimistic.

[Jersey Gas comment] See the comment above for Item 12. Again we believe that Planning & Environment are overstating the technical and practical difficulties of laying a pipeline.

Summary

14. The case for spending further public money to study the feasibility of a natural gas pipeline has not been made. The States have already paid for a study and this has shown that there is no economic case for a gas pipeline. In any case the practical difficulties of routing a pipeline across French countryside are likely to be insurmountable.

[Jersey Gas comment] As the proposal points out, the Poyry study did not take into account all of the financial benefits of laying a pipeline. Hence, the statement that there is no economic case is not valid. In fact, the proposal merely asks for the full benefits to be identified in order that a proper and full evaluation of the economic case can be made. As the proposals points out, it would not require significant public funds to undertake the next part of the review. It could largely be undertaken by existing civil servants. One could argue that there would be no appreciable increase in workload as the States are working on a master plan for St Helier, plans for the Town Park and the La Collette area. The areas of land that could be made available by the pipeline affect all three of these areas. The provision of a pipeline will probably result in a more expedient and efficient resolution of these work streams. The comment that the practical difficulties of laying a pipeline are likely to be insurmountable is overstated, see our comment to Item 12.

15. Aspects of the report that deal with carbon targets and security of supply are premature in that they should be considered within the context of a wider energy policy. The States will have the opportunity to consider and debate the energy policy later in the year following the publication of the Energy White Paper.

[Jersey Gas comment] As stated above, the proposal is a response to the draft energy policy of September 2007. The Planning & Environment Dept. seem to hold the same opinion as they did in September 2007, therefore, we expect them to be seeking to achieve the original objectives of providing secure, affordable and sustainable energy supplies for the island whilst looking to reducing carbon emissions. The pipeline option meets all of the above criteria and has the potential to release land for more efficient purposes and save the taxpayer millions of pounds with regard to the relocation of the fuel storage and gas production facilities at La Collette. Hence we cannot understand why it is not promoted in the September 2007 draft and why Planning & Environment continue to resist reviewing the pipeline project.

16. Investing in such a pipeline does not increase the security of supply. Both Oil and gas are finite natural resources and therefore the real focus of forward energy planning should be on developing renewable sources of energy and a coherent plan for doing this is emerging for the Minister's Tidal Power Commission that is led by Connétable Murphy and will be brought before the States for debate in 2010.

[Jersey Gas comment] Pipelines do offer increase security of supply, they are more secure than shipping of fuels. There are approximately 60 years of known natural gas resources at current levels of demand. A pipeline offers future, lower carbon, renewable and sustainable gas options through biogas (gas from waste products such as refuse, sewage). Tidal power is currently in its embryonic stage, it is possibly +30 years away from being commercially viable on a macro scale, it may never be commercially viable. Hence, Planning & Environment need to have alternative plans and keep doors open on other types of technology.

17. The Department is happy to continue to liaise with the Energy companies in this area, if those companies themselves progress further work on pipeline feasibility, either for gas or oil products.

[Jersey Gas comment] The energy companies need to know that the States of Jersey are genuinely interested in such proposals. The lack of dialogue, a 2007 energy policy draft that was not fit for purpose and attempts to introduce biased building Bylaws have sent out the wrong messages and created an environment in which the fuel companies have concerns for the future. Also, given that many benefits of a pipeline interact with various States initiatives such as the energy policy, Town Park, the St Helier master plan and the development of La Collette, we believe it is necessary for the States to get involve.

Financial and manpower implications

18. The proposition asks the Department to fund a study within existing resources. However the work is estimated to cost c.£50,000 and cannot be found from within existing resources. In order to fund such a study a re-allocation of funding and reprioritising of work streams by the leading Department would be required since this is an un-budgeted piece of work.

[Jersey Gas comment] See comment to Item 14. We do not believe that there would be any significant increase in workload or cost associated with the proposal. Please remember that the pipeline project has the potential to save the taxpayer tens of millions of pounds in avoided cost, releases parcels of land to assist the development of St Helier, the Town Park and La Collette, and hence, we believe is worthy of resourcing to investigate further.

19. The commissioning of a 'high-level' study is considered a duplication of the Pöyry report which has already been commissioned at a cost of £13,600 in December 2007 States Members are therefore urged to reject this proposition

[Jersey Gas comment] The proposal does not request a duplication of the Poyry report, it requests the States to instruct Planning & Environment to take the next logical step in the process and review all the benefits of the pipeline proposal in order that we can understand the full economic and social impact. The proposal does this because it would appear that Planning & Environment are ignoring what looks like a viable project with many appreciable benefits.