



The Irish Farmers' Association

AGREEMENT WITH
BORD GÁIS ÉIREANN
ON COMPENSATION
FOR
GAS PIPELINE WAYLEAVES
THROUGH FORESTRY

INTRODUCTION

We are delighted to be a party to this agreement with Bord Gáis on compensation for gas pipelines through forestry land. This agreement follows negotiations with Bord Gáis on a revised and improved wayleave package for farmers affected by gas pipelines which was concluded in late 2000.

As a result of this forestry agreement, farmers who are affected by Bord Gáis pipelines through their forestry land will be fully compensated for loss of revenues from annual premia, thinnings and clearfell values of the timber crop.

Future cash flows from forestry will first be calculated and then discounted to their present day values and paid in compensation.

IFA also wishes to acknowledge, with appreciation, the assistance of Tom Corr of Gaynor Corr & Associates, John Donegan of Bord Gáis Éireann and Ned Bolger of Bolger Agricultural Consultants in drafting this agreement.

If you require any further information on the operation of this agreement with Bord Gáis, or any of your forestry needs, please contact IFA's Farm Forestry Section at IFA Headquarters, Bluebell, Dublin 12, phone 01-4500266

Patrick Lehane, Chairman
IFA Farm Forestry Section

Francis Fanning, Chairman
IFA National Industrial & Environmental Committee

1.0 BACKGROUND INFORMATION

Forestry losses are obviously different than losses arising in normal farming practice mainly because of the long-term nature of the crop, the restrictions in replanting the wayleave, the cost effectiveness of replanting the rest of the working strip and the tax benefits. The actual losses will vary due to the fact that there are a large number of variables involved including: planting date, species of tree, yield class, level of premia being obtained etc.

Section two outlines the basic principles agreed with Bord Gais Eireann to be used in assessing forestry losses in the case of Bord Gais Eireann pipelines.

This document does not preclude landowners from claiming for any other valid losses which may arise as a result of BGE works now or in the future e.g. windblow, trespass etc. The examples used are for illustrative purposes only.

2.0 BASIS OF COMPENSATION FOR FORESTRY LOSSES

2.1 System "Net Discounted Revenue"

This is the discounted returns from premia, thinnings and the final crop less the discounted costs involved in producing it. A specific discount rate must be chosen. This is the most accepted system of valuing forestry and is widely used.

2.2 Discount Rate

A discount rate equal to the average yield rate of government stocks to the nearest 0.25% as published in the financial press will be applied in calculating Net Discounted Revenue

2.3 Non Wayleave Area of Working Strip

For each specific case, the landowner should apply to the Forestry Section of the Department of the Marine and Natural Resources to obtain clarification as to what planting grants or premia landowner will or will not receive on this non-wayleave section of the working strip. In many cases it will not be feasible to replant the non wayleave section of the working strip.

2.4 Losses in Year 1 and Year 2

The appointed Agronomist will prepare assessments for losses in years one and two after commencement of construction in the normal manner where land is already planted. Generally, this would amount to the loss of premia and disturbance which will be covered by the advance payment in most cases.

2.5 Losses in Year 3 and Subsequent Years

Losses from year three onwards will be prepared on the basis of the Net Discounted Revenue System as explained at 2.1 above. Specific examples are given in Section 3.0.

2.6 Price of Timber

The price of timber will be based on the historic average standing timber price in the previous ten years.

2.7 Taxation

As returns from forestry are tax-free, landowners will receive a letter from Bord Gais Eireann explaining that the compensation is in relation to forestry losses.

3.0 EXAMPLES OF FORESTRY COMPENSATION

3.1 Common Assumptions in Example 1 and Example 2

Certain assumptions are being made in the following examples. How these assumptions might apply in other claims is given in italics in each case.

- (a) Output and Costs are being discounted on basis of "Present Value of One Pound".
This principle will apply to all claims.
- (b) Premia are being discounted on basis of Years Purchase (single rates).
Again this principle will apply in all cases.
- (c) Discount rate of 4.75% being assumed based on average yield of current government stocks
~(extracted from Irish Times 9/1/2001).
This assumption will vary as the yield of government stocks will vary over time.
- (d) Yield Class 20 is being assumed.
This yield class will obviously vary depending on the actual yield class applying in each case.
- (e) Sitka Spruce is the only species affected by construction
Again the species will obviously vary in different situations.
- (f) The current planting grant covers the establishment, management and insurance costs incurred during the first four years.
This assumption can be taken as applying in the majority of cases.
- (g) Timber prices are based on average standing timber prices for preceeding ten years
This is a fair basis of assessment.
- (h) It is not economically viable for landowner to replant the sixteen metre part of the working strip outside the fourteen metre wayleave section.
This principle will generally apply.

3.2 Example 1. Forestry Land Being Planted In Year 3

Specific Assumptions in Example 1

- (a) Land being planted in year three after construction commenced.
- (b) Land in drystock for first two years during construction.
- (c) Planting is 20% diverse conifers, plantation exceeds 12 Ha's, enclosed land and farmer premia rate applies i.e. £132.72 per acre.
- (d) Crop Loss Advance payment for years 1 and 2 has covered farming losses in Years 1 and 2.
- (e) Landowner plants all of the non wayleave area of the working strip and leaves wayleave area fallow.
- (f) 270 metres of pipeline through land affected and a 30 metre wide working strip.

FIRST ROTATION LOSSES (PER ACRE BASIS)

Net Discounted Output

	£
Premia (for 20 years)	1,689.87
£132.74 x 12.7307	
Thinnings (T)	
T1 Year 20: 15m ³ timber @ £3/m ³ x 0.3953	17.79
T2 Year 25: 29m ³ timber @ £8/m ³ x 0.3134	72.71
T3 Year 30: 29m ³ timber @ £14/m ³ x 0.2485	100.89
T4 Year 35: 29m ³ timber @ £21/m ³ x 0.1971	120.03
Clearfell - Year 40	
172m ³ timber @ £32/m ³ x 0.1563	860.28
A. Total Net Discounted Output	2,861.57

Net Discounted Costs

	£
Management Charges	
£6 per annum for years 5 to 40 inclusive: (£6 x 17.7630) less (£6 x 3.5666)	85.18
£106.58 less £21.40	
Road Installation	
Year 19 - £20 x 0.4141	8.28
Road Maintenance	
Year 21 - £10 x 0.3774	3.77
Year 26 - £10 x 0.2992	2.99
Year 31 - £10 x 0.2373	2.37
Year 36 - £10 x 0.1881	1.88
A. Brushing of Inspection Paths	
Year 19 - £28 x 0.4141	11.59
Drain Repairs	
Year 21 - £10 x 0.3774	3.77
Year 26 - £10 x 0.2992	2.99
Year 31 - £10 x 0.2373	2.37
Year 36 - £10 x 0.1881	1.88
Insurance	
Based on 0.3% of value of crop each year over the 40 years discounted to present values and assuming the first four years are covered by grant	110.00
B. Total Net Discounted Costs	237.07
C. NET DISCOUNTED REVENUE (A - B) (FIRST ROTATION)	2,624.50

SECOND ROTATION LOSSES (YEAR 40 TO YEAR 80) (PER ACRE BASIS)

Net Discounted Output

	£
Thinnings	
T1 Thinnings (year 60) - 15m ³ @ £3/m ³ x 0.0618	2.78
T2 Thinnings (year 65) - 29m ³ @ £8/m ³ x 0.0500	11.60
T3 Thinnings (year 70) - 29m ³ @ £14/m ³ x 0.0388	15.75
T4 Thinnings (year 75) - 29m ³ @ £21/m ³ x 0.0308	18.75
Clearfell Year 80	
172m ³ timber @ £32/m ³ x 0.0244	134.30
A. Total Net Discounted Output:	183.18

Net Discounted Costs

Shortfall after re-afforestation grant on planting management and insurance costs for first four years. £346 x 0.1492 (year 41)	51.62
Management Charges £6 per annum for years 45 to 80 (£6 x 20.5386) less (£6 x 18.444) £123.23 less £110.66	12.57
Road and Brushing Costs - Year 59 £48 x 0.0647	3.11
Road Maintenance and Drainage Repairs Year 61 - £20 x 0.0590 Year 66 - £20 x 0.0468 Year 71 - £20 x 0.0371 Year 76 - £20 x 0.0294	1.18 0.94 0.74 0.59
Insurance Based on 0.3% of value of Crop each year:	17.19
B. Total Net Discounted Costs:	87.94

NET DISCOUNTED REVENUE (A-B) 95.24

Total Crop Losses per Acre Not Planted

First Rotation Losses:	2,624.50
Second Rotation Losses:	<u>95.24</u>
Total Crop Loss per acre not planted:	2,719.74

EXAMPLE 1

SUMMARY

1. Crop Loss and Disturbance Year 1 and Year 2

This is covered by advance payment of £1,821 per acre of working strip area based on 30m working strip (i.e. £13.50 per linear metre).

2. Crop Loss from Year 3 onwards

Area affected: 270 metres x 14 metres i.e. 0.934 acres.

0.934 acres @ £2,719.74 per acre as calculated above: £2,540

3.3 Example 2. Land Planted Ten Years

Specific Assumptions for Example 2

- (a) Land has been planted ten years at commencement of construction.
- (b) Premia per acre: £54.00
- (c) Crop Loss in Year 1 and Year 2 after commencement of construction consists of loss of premia i.e. $2 \times £54 = £108$ per acre. This crop loss, together with disturbance, is covered by the advance crop loss payment of £1,821 per acre of working strip.
- (d) 270 metres of pipeline through land affected and a 30 metre working strip.

FIRST ROTATION LOSSES

<u>Net Discounted Output</u>	£
Premia (for 8 years as first two years dealt with) £54 x 6.529	352.57
Thinnings	
T1 Year 20 - 8 years on 15m ³ @ £3/m ³ x 0.6899	31.05
T2 Year 25 - 13 years on 29m ³ @ £8/m ³ x 0.5470	126.90
T3 Year 30 - 18 years on 29m ³ @ £14/m ³ x 0.4337	176.08
T4 Year 35 - 23 years on 29m ³ @ £21/m ³ x 0.3439	209.44
Clearfell - Year 40 - 28 years on 172m ³ timber @ £32m ³ x 0.2727	1,500.94
A. Total Net Discounted Output:	2,396.98

EXAMPLE 2

SUMMARY OF CLAIM

1. Year 1 and Year 2 dealt with by the Advance Crop Loss and Disturbance Payment as premia is only Crop Loss.
2. Year 3 and subsequent years (Crop Loss):
 Acreage not being replanted: 270 metres x 30 metres i.e. 2 acres
 2 acres @ £2,403.23 as calculated above: £4,806.46

4.0 BORD GÁIS ÉIREANN GAS PIPELINE WAYLEAVE PACKAGE (NOVEMBER 2000)

Details of key financial provisions of main Bord Gáis wayleave package through agricultural land as follows:

Linear payments-

1.	Permanent 14 metre wayleave	£11.00 per linear metre
2.	Fibre Optic Cable	£6.00 per linear metre
	Wayleave total	£17.00 per linear metre
3.	Crop loss and disturbance	£13.50 per linear metre for a 30m working strip (note 1)
4.	Early sign-up	£3.00 per linear metre
	Total	£33.50 per linear metre

Minimum compensation payments

£1,200 per landowner where 30 metre working strip required.
 £1,000 per landowner where 18 metre working strip required.

Site investigation

Bore holes/trial pits	£200 each
Probing	£100

Note 1: Where pipelines require a lesser 18 metre working strip, crop loss compensation is reduced pro rata to £8.10 per linear metre.

Net Discounted Costs

	£
Management Charges	
£6 per annum for years 12 to 40 (£6 x 17.7630) less (£6 x 8.9896) £106.58 less £53.93:	52.65
Road Installation and Brashing	
This will occur at year 19 (i.e. 7 years on) £48 x 0.7226	34.68
Road Maintenance & Drainage	
Repairs after Thinnings	
Year 21 - (9 years on) £20 x 0.6586	13.17
Year 26 (14 years on) £20 x 0.5222	10.44
Year 31 (19 years on) £20 x 0.4141	8.28
Year 36 (24 years on) £20 x 0.3283	6.57
Insurance	
Based on 0.3% of value of crop each year until clearfell stage:	85.00
<i>B. Total Net Discounted Costs</i>	<i>210.75</i>
C. NET DISCOUNTED REVENUE (A - B)	2,186.23

SECOND ROTATION LOSSES

Based on Example 1, where the second rotation was worth £95, the second rotation in this case is worth £217 as it comes in twelve years earlier than in Example 1.

Total Crop Loss per acre of land not replanted: £2,186.23 + £217: £2,403.23