

21st October 2011

Phoenix Natural Gas Limited Price Control Draft Proposals 2012-2013 Consultation Paper

Manufacturing NI welcome the opportunity to respond to this consultation paper. Manufacturing NI represents the interest of almost 500 manufacturers in Northern Ireland including some of the largest customers and potential customers on both the present gas network and the proposed extended gas network.

MNI fully supports the NIAUR's goal to secure the most cost efficient outcome for the consumer while allowing PNGL to continue financing its activities. Consequently we broadly support the approach taken throughout this consultation document by the NIAUR.

In relation to deferred capex, we support the belief that gas consumers should not have to pay for pipes before they are built and the subsequent proposal to make an adjustment to the TRV to account for this.

We also support the NIAUR's view that the benefits from outperformance are shared between companies and consumers and the proposal to remove the outperformance (suitably depreciated) from the TRV in 2012.

We do however question the use of RPI as an index for all allowances. It is difficult to see the relevance of an index based on consumer retail prices in the context of capital expenditure on the gas network. As a result of the recession the cost of construction and related works in Northern Ireland has fallen significantly due to over capacity and increased competition. We believe that serious consideration should be given to the use of the Construction Output Price Index (COPI) or a more relevant index for capex. The Building & Construction Industry Scheme contains a variety of indices relating to different elements of construction and is already widely in use by a number of government departments including the Department of Regional Development.

We are however concerned that some of the NIAUR's proposals may be outside the terms of the licence presently held by PNGL which may require amendment.

Manufacturing NI is astonished as to how the present situation regarding a major clawback of funding from PNGL has arisen. We would urge NIAUR to ensure that in future a consistent approach is adopted which will ensure that investors can identify long term stability in the utility infrastructure of Northern Ireland, thus helping to minimise the cost of capital to PNGL and other

infrastructure companies, to the benefit of consumers. We also believe that safeguards must be put in place to ensure that such a situation does not arise again.

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