

Graham Craig,
Gas Branch,
Utility Regulator,
Queens House,
14 Queens Street,
Belfast BT1 6ER

29th May 2013

Dear Graham,

I am writing to you in relation to the Utility Regulator Consultation Paper on Gas Network Extensions in Northern Ireland. We welcome the opportunity to provide some input to you regarding the proposed project given its importance and the significant investment required. We believe however that there are some technical and regulatory elements to the proposed tender process that we would welcome NIAUR clarification on. Although this is a consultation on the tender process the paper states that all information required for those ultimately invited to tender for the project has been made available. On that basis, we have set out below a number of considerations that we believe should be addressed in order to facilitate the process further.

Overall System Capability:

We note the feasibility report does not make reference to the effect the proposed extension would have on the Northern Ireland network as a whole, other than the 35 bar that would be available at the connection point on the South North pipeline. Consideration should be given to the existing transmission system capability regarding the proposed gas network extension demands.

We believe specific information on the largest potential end use pressure requirements, (i.e. customer pressure) from our experience, would potentially allow optimisation of the transmission system design solution.

We believe further engineering information (e.g. environmental considerations and more detailed mapping for river crossings and motor ways etc) is required to address the levels of risk being sought to allow any applicant provide a competitive tender under the competition to achieve the optimum transmission and distribution system design.

Proposed Timelines

We believe the timeline for the proposed licence application process should be lengthened given the scale of the proposed works and taking into consideration that further information is required on the programme for development of the transmission system. We believe that this proposal will positively aid the tender process based on our experiences of building transmission pipelines in the past in Northern Ireland.

Regulatory Model

From a regulatory perspective, we continue to be of the view that an equity based model with a traditional regulatory asset base is the most suitable model to pursue. This allows for replacement and expansion CAPEX to be included in a financial model and depreciated over the useful life of the asset. We believe that the WACC for the investment should be set with the cost of equity component determined using the Capital Asset Pricing Model (CAPM). The WACC must compensate for the risk in the project.

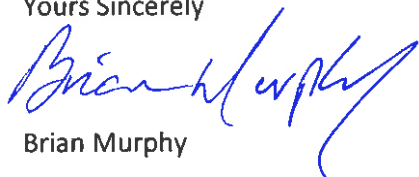
In relation to the requirement for applicants to submit operating costs for the full 40 year period of the licence we believe that there may be little value in forecasting beyond the initial price control period. It is our view that there may be too many unknowns in relation to Network Development, Codes of Operations, CAG developments and further National and European Legislative Developments to allow for accurate forecasting of long term operating costs.

The consultation states that it is anticipated that DETI will designate the Transmission assets as forming part of the NI Postalised system. Considering the requirements of EC715/2009, we would suggest that the impact of moving to an Entry-Exit regime be considered when evaluating this project and its impact on any cost allocation methodology to be introduced be considered.

We are in agreement with the concept of an incentive interest rate during construction but believe that in the current market, the proposed rate of LIBOR +0.5% may not be attractive to potential investors

We would welcome if you could indicate as to how these concerns will be addressed.

Yours Sincerely



Brian Murphy

Regulation Manager