

Sale of Phoenix Transmission Business

January 2007

1. Introduction

1.1 On 28th November Ofreg released a Press Statement outlining a proposed agreement reached with Phoenix on a new licence framework. The press release included the statement;

“The agreement also provides for the transmission pipeline operated by Phoenix to be sold. Ofreg hopes this will lead to a simplification of Northern Ireland’s transmission arrangements.”

1.2 The current Phoenix conveyance licence combines both transmission and distribution elements. The sale of the transmission business will require the Phoenix company owning the transmission assets to hold a stand alone transmission licence. This paper seeks to provide Ofreg’s initial views on how the transmission business might be licensed as a separate entity. We envisage that this new licence would be granted to Phoenix so as to be in place in time for completion of the sale.

2. Licence Principles

2.1 The first principle in approving the transmission licence will be to ensure that it provides measurable benefits to customers. We are willing to examine all options which seek to maximise customer benefits. One potential option that Ofreg is currently minded to consider is that the transmission licence should reflect the principles of the Premier Transmission Limited (“PTL”) conveyance licence¹.

¹ This licence is published on the Ofreg website at <http://ofreg.nics.gov.uk/>

- 2.2 PTL was purchased in 2005 by Northern Ireland Energy Holdings, a not-for-dividend company limited by guarantee. This purchase was 100% debt financed and the PTL licence was designed to reflect this in a number of areas including the calculation of required revenue. Without fettering any future decision Ofreg believes that this licence should provide a useful basis for all interested parties in understanding how the Phoenix transmission licence can be structured.
- 2.3 Ofreg anticipates that the Phoenix transmission licence will include required revenue based on an underlying asset value of £95m². If the rate of return were to be set on a basis equivalent to that of PTL, it would be linked to the lowest finance rate available on the market. The coupon on the SNIP transaction was 2.46% real and we see no reason why a similar value should not be attainable for Phoenix transmission.
- 2.4 Our preliminary analysis shows that if a similar coupon to the PTL figure was achieved, it would result in significant customer benefits. These figures are subject to a number of assumptions, the most important one being market conditions. Should market conditions change significantly, then Ofreg will have to review the customer benefits associated with the new licence.
- 2.5 As stated in the Press Statement, Ofreg hopes that this sale will lead to a simplification of transmission arrangements. In order to maximise customer benefits Ofreg will seek to design the licence to only allow operating expenditure based on an efficient, effective and co-ordinated operational regime.

3. Way Forward

- 3.1 Ofreg plans to progress the licence over the coming months with a view to having a finalised version prepared by June 2007. In the meantime we are happy to

² This price has not been finalised and there will be minor adjustments, primarily to reflect the date of sale.

discuss the licence or any other issues surrounding the regulation of Phoenix transmission with interested parties.

- 3.2 If you have any comments regarding this note or wish to discuss these issues further, then please contact:

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