

Premier Transmission Limited and Belfast Gas Transmission Limited Operating Expenditure Review

Utility Regulator Decision Paper

May 2009

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1. Summary of Consultation Paper

To improve the rate at which the Scotland to Northern Ireland Pipeline and Belfast Gas Transmission Pipeline could be financed the normal regulatory control over any allowed operational expenditure accrued by both Premier Transmission Limited (“PTL”) and Belfast Gas Transmission Limited (“BGTL”) has been removed. In other words all of their operational expenditure is pass through thereby reducing the risk to the company and allowing them to achieve a lower rate of finance.

The resulting transfer of risk onto consumers, through potential inefficient operating costs, can be limited through corporate governance licence conditions contained within the conveyance licences held by both PTL and BGTL. One of which is a condition that, in the form of a shadow price control, allows the Utility Regulator to review the level of operating expenditure forecast to be incurred by PTL and BGTL for the next three gas years. This process is a monitoring exercise and does not prevent either PTL or BGTL from recovering their actual costs through their respective licences.

In March 2009 the Utility Regulator issued a consultation to update all interested parties on the process for the review of the PTL and BGTL controllable operating expenditure for gas year 2008/09 and the following two gas years. The paper set out the Utility Regulator’s minded to decision on the level of controllable operational expenditure we see as being appropriate for PTL and BGTL to operate and maintain their networks effectively and safely.

The process undertaken in arriving at our decision on the controllable operating expenditure of PTL and BGTL involved a detailed review of the controllable operational expenditure estimates submitted by PTL and BGTL and then taking a view on what we saw as being an appropriate allowance. This review took the form of a standard price control.

Following this process we came to a view on a level of controllable operational expenditure we feel is sufficient to ensure that PTL and BGTL operate their network effectively and safely, while incentivising them to create efficiencies in operating their networks.

In summary our minded to decision for the PTL and BGTL controllable operating expenditure for gas years 2008/09, 2009/10 and 2010/11 was as follows:

	2008/09	2009/10	2010/11
Premier Transmission Ltd	£3,100,210	£3,790,133	£2,800,912
Belfast Gas Transmission Ltd	£1,176,000	£1,322,640	£838,966

2. Responses Received and Utility Regulator View on Responses

The Utility Regulator received two responses to the consultation paper from:

- a. Phoenix Energy Holdings Limited ("PEHL"); and
- b. The Consumer Council.

We would like to thank the respondents for their time and input into the consultation process. Both responses have been published in full alongside this paper on the Utility Regulator website.

The key issues raised by the respondents were as follows:

a) Efficiency Factor

PEHL questioned why we applied an efficiency factor consistent with that used in Ofgem's Distribution Price Control and not Ofgem's Transmission Price Control.

Utility Regulator View – the most recent analysis carried out by a Regulator regarding the most appropriate efficiency factor is that of Ofgem's for the Gas Distribution Networks in Great Britain for the period April 2008 – 31 March 2013. As this only took effect last year we felt this was a more accurate reflection on the most appropriate efficiency factor compared to the Ofgem Transmission Price Control which was set in 2006.

On the basis of this and irrespective of the fact that PTL and BGTL are transmission companies we have set the efficiency factor equal to that applicable to the Gas Distribution Networks in Great Britain.

b) Impact of Common Arrangements for Gas

PEHL asked whether the 2010/11 operating expenditure would be reviewed if CAG is implemented by October 2010.

Utility Regulator View – If CAG is implemented in October 2010 then the decision on the PTL and BGTL controllable operating expenditure for gas year 2010/11 will be reopened to consider the expected efficiencies that will arise as a result of CAG.

c) Operating Expenditure Savings

PEHL sought clarification on whether we intend to comment on whether both PTL's and BGTL's actual operating expenditure is delivering the savings anticipated at the time of their mutualisation. In particular they made reference to the annual operating expenditure savings of £300,000 forecast at the time of mutualisation of the Belfast Gas Transmission Pipeline.

Utility Regulator View – the analysis into whether PTL and BGTL are delivering the benefits forecast at the time of their mutualisation is an area of work which will require further analysis beyond the scope of this review of the PTL and BGTL controllable operating expenditure. We will continue to monitor performance as we have done in the past and this will include analysis of operating expenditure performance.

d) Publication of Actual Operating Expenditure

The Consumer Council has requested that actual costs incurred by PTL and BGTL be publicly available in the interests of transparency and openness, with explanations provided in the event that actual operating expenditure is higher than our determination.

Utility Regulator View – as part of the process for determining the annual Northern Ireland postalised transmission tariff the forecast required revenue of the three transmission owners (PTL, BGTL and BGE (NI)) is made public to the gas distribution and supply companies. Once the gas year is over then they are informed of the actual required revenue as part of the reconciliation process.

We feel this is a process which works well and is a transparent way to inform the customers of the transmission network i.e. the distribution and supply companies what exactly they are paying for in the transmission tariff. We will also consider performance reporting as part of future price control work with NIEH companies.

Financial information including the total operating costs of Moyle, PTL and BGTL are also made public in the form of the NIEH Annual Report.

3. Final Decision

Having taken into account the responses to the consultation and provided our views to these responses in section two, we have come to the decision that our minded to decision as set out in our March consultation paper will be our final decision.

In summary therefore our decision for the PTL and BGTL controllable operating expenditure for gas years 2008/09, 2009/10 and 2010/11 is as follows:

PTL Controllable Operating Expenditure – Utility Regulator Decision

	2008/09	2009/10	2010/11
Maintenance	£987,082	£1,647,082	£747,082
Operations	£821,452	£810,656	£800,024
Administrations	£1,291,676	£1,370,680	£1,310,676
Efficiency Factor	0	-£38,284	-£56,870
Total Operating Expenditure	£3,100,210	£3,790,133	£2,800,912

BGTL Controllable Operating Expenditure – Utility Regulator Decision

	2008/09	2009/10	2010/11
Maintenance	£691,000	£851,000	£371,000
Operations	£55,000	£55,000	£55,000
Administrations	£430,000	£430,000	£430,000
Efficiency Factor	0	-£13,360	-£17,034
Total Operating Expenditure	£1,176,000	£1,322,640	£838,966