

Premier Transmission Limited and Belfast Gas Transmission Limited Operating Expenditure Review

Consultation

2011/2012 – 2013/14

12 June 2012

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1 INTRODUCTION

Introduction

- 1.1 This paper sets 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 for the three years 2011/12, 2012/13 and 2013/14.

Company Overview

- 1.2 PTL is the owner and operator of the SNIP which links Twynholm in Scotland with the Ballylumford power station in Co. Antrim. BGTL is the owner of the BGTP system which runs from Ballylumford power station to the Belfast distribution network. Both PTL and BGTL are wholly owned subsidiaries of Mutual Energy Limited and have the same management team but are legally separate companies.
- 1.3 To improve the rate at which the SNIP and BGTP could be financed the normal regulatory control over any allowed operational expenditure accrued by both PTL and 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.
- 1.4 The resulting transfer of risk onto consumers (through potential inefficient operating costs) has been limited through corporate governance licence conditions contained within the conveyance licences held by both PTL and BGTL. One such condition 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 in the form of a shadow price control. This process is a monitoring exercise and does not prevent either PTL or BGTL from recovering their actual costs through their respective licences. Indeed any outperformance by PTL and BGTL is returned to customers. This review has therefore two aims: firstly to provide the PTL and BGTL management with an operating expenditure benchmark and secondly to provide greater transparency of operating costs to the wider public. This condition is an important part of mutualisation due to the pass through nature of the operating expenditure.
- 1.5 The condition in question is Condition 3.1.6 (b) (i) of both the PTL and BGTL Conveyance licences which states that the licensee must submit an estimate of its controllable operational expenditure for each of the next three gas years together with an explanation verifying the costs as reasonable estimates. Condition 3.1.6 (b) (i) then permits the Utility Regulator "to verify that such estimates are reasonable estimates".

Consultation

- 1.6 This paper sets out for consultation 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.
- 1.7 We have not posed any specific questions in this paper. Instead we invite stakeholders to express a view on any particular aspect of the paper or any related matter. Responses should be received by **5.00pm on Tuesday 7th August 2012** and should be addressed to:

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- 1.8 Our preference would be for responses to be submitted by e-mail.
- 1.9 Individual respondents may ask for their responses in whole or in part, not to be published, or that their identity should be withheld from public disclosure. Where either of these is the case, we will ask respondents to also supply us with the redacted version of the response that can be published.
- 1.10 As a public body and non-ministerial government department, we are bound by the Freedom of Information Act (FOIA) which came into full force and effect on 1 January 2005. According to the remit of FOIA, it is possible that certain recorded information contained in consultation responses can be put into the public domain. Hence it is now possible that all responses made to consultations will be discoverable under FOIA – even if respondents ask us to treat responses as confidential. It is therefore important that respondents note these developments and in particular, when marking responses as confidential or asking to treat responses as confidential, should specify why they consider the information in question to be confidential.
- 1.11 This paper is available in alternative formats such as audio, Braille etc. If an alternative format is required, please contact the office and we will be happy to assist.

2 APPROACH

Our Statutory Duties

- 2.1 Our principal objective in carrying out our gas functions is to promote the development and maintenance of an efficient, economic and coordinated gas industry in Northern Ireland. Our principal objective must also be pursued in a way that is consistent with the objectives defined in Article 40 of the Gas Directive, the most relevant of which – in the context of carrying out price controls – are promoting an efficient market, and protecting consumers.
- 2.2 In carrying out our gas functions, we are also required to further this principal objective in the best manner that we see fit whilst also having regard to a number of other considerations. The key relevant one being the need to ensure that licence holders are able to finance their licensed activities.
- 2.3 We therefore interpret our duties, in the context of carrying out price controls, as a mandate to secure the most cost efficient outcome for the consumer that also allows the company to continue financing its activities. This has been the overarching philosophy that has guided our approach to this price control.

Regulatory Principles

- 2.4 The principles underpinning the regulatory proposals herein are to ensure the revenues and resulting tariffs are:
- Sustainable;
 - Stable;
 - Transparent;
 - Predictable; and
 - Cost-reflective.
- 2.5 These are based on best practice regulation of natural monopolies. Our task essentially consists of creating a framework within which, in return for providing monopoly services to an acceptable quality, the company receives a reasonable assurance of a revenue stream in future years that will cover its costs.

Approach

- 2.6 We have decided to undertake the review of both PTL's and BGTL's controllable operating expenditure jointly.
- 2.7 In September 2011 PTL/BGTL submitted, as required by their licence, an estimate of their annual operating expenditure for the gas years 11/12 and subsequent two years. A summary of the information submitted by PTL/BGTL is presented in section 3.
- 2.8 Our primary objective is to ensure that costs are incurred as efficiently as possible and in this regard this review has taken the form of a standard price control. The Utility Regulator has taken the following approach in setting an appropriate level of allowed operating expenditure for PTL/BGTL for gas year 2012/13 and the following two gas years:

- (i). we have commissioned engineering consultants, PB Power, to give advice and make comment on the engineering aspects of the PTL/BGTL operating expenditure submissions;
- (ii). used actual operating expenditure costs incurred by PTL and BGTL to develop a detailed trend analysis for controllable operating expenditure costs going forward; and
- (iii). the consideration of a level of efficiency that we feel is achievable in the business over the next three years.

2.9 Following this process we have come 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.

2.10 The submissions were analysed on a line by line basis to ensure a detailed analysis of the operating expenditure costs.

3 PTL CONTROLLABLE OPERATING EXPENDITURE

3.1 Table 1 below shows PTL's proposals for their forecast annual controllable operating expenditure for gas year 2011/12 and the following two years. More detail of the build-up of the individual cost lines was also provided by PTL.

Table 1 – PTL Operating Expenditure Submission

Cost Item	2011/2012	2012/2013	2013/2014
Maintenance			
Landowner Liaison	51,310	46,310	46,310
Crop & Drainage Settlements	48,210	48,210	48,210
Engineering Works	2,206,699	1,534,832	11,965,188
Maintenance Total	2,306,220	1,629,352	12,059,708
Operations			
Planning	30,500	30,000	20,500
Operations	1,403,421	915,622	910,622
Operations Total	1,433,921	945,622	931,122
Administration			
Insurance	431,000	416,000	431,000
Office costs and other admin	344,304	252,804	264,804
Administration	1,928,713	691,920	694,750
Total Administration Costs	2,704,017	1,360,724	1,390,554
Total PTL Opex	6,444,158	3,935,698	14,381,384

Source: PTL

3.2 Table 2 below shows PTL's actual annual controllable operating expenditure for gas the gas years 2007/08, 2008/09 and 2009/10.

Table 2 – PTL Operating Expenditure Actual Costs (uplifted to September 2011)

Cost Item	2007/2008	2008/2009	2009/2010
Maintenance			
Landowner Liaison	36,979	40,297	32,897
Crop & Drainage Settlements	50,601	8,406	46,683
Engineering works	850,737	1,096,599	798,124
Maintenance Total	938,318	1,145,302	877,704
Operations			
Planning	7,640	1,678	9,859
Operations	828,602	782,896	818,644
Operations Total	836,243	784,574	828,503
Administration			
Insurance	415,704	446,028	360,774
Office costs and other admin	196,450	216,658	198,689
Administration	674,215	713,094	600,394
Total Administration Costs	1,286,369	1,375,781	1,159,857
Total PTL Opex	3,060,930	3,305,657	2,866,064

Source: UR

PTL Opex Summary

3.3 In the table below we set out a summary of the total opex allowances we propose for 2011/12, 2012/13 and 2013/14.

Table 3 – PTL Operating Expenditure Summary

Cost Item	PTL Submission				UR Proposed Allowance				Difference				
	2011/12	2012/13	2013/14	Total	2011/12	2012/13	2013/14	Total	2011/12	2012/13	2013/14	Total	Total %
Maintenance													
Landowner Liaison	51,310	46,310	46,310	143,930	42,000	37,000	37,000	116,000	-9,310	-9,310	-9,310	-27,930	-19%
Crop & Drainage Settlements	48,210	48,210	48,210	144,630	36,000	36,000	36,000	108,000	-12,210	-12,210	-12,210	-36,630	-25%
Engineering Works	2,206,699	1,534,832	11,965,188	15,706,719	1,772,873	658,180	977,351	3,408,405	-433,826	-876,651	-10,987,837	-12,298,315	-78%
Maintenance Total	2,306,220	1,629,352	12,059,708	15,995,279	1,850,873	731,180	1,050,351	3,632,405	-455,346	-898,171	-11,009,357	-11,370,223	-71%
Operations													
Planning	30,500	30,000	20,500	81,000	6,500	6,500	6,500	19,500	-24,000	-23,500	-14,000	-61,500	-76%
Operations	1,403,421	915,622	910,622	3,229,666	879,805	802,805	807,805	2,490,415	-523,616	-112,817	-102,817	-739,251	-23%
Operations Total	1,433,921	945,622	931,122	3,310,666	886,305	809,305	814,305	2,509,915	-547,616	-136,317	-116,817	-800,751	-24%
Administration													
Insurance	431,000	416,000	431,000	1,278,000	405,000	405,000	405,000	1,215,000	-26,000	-11,000	-26,000	-63,000	-5%
Office costs and other admin	344,304	252,804	264,804	861,911	215,169	213,169	215,169	643,507	-129,135	-39,635	-49,635	-218,404	-25%
Administration	1,928,713	691,920	694,750	3,315,383	564,472	491,472	415,972	1,471,916	-1,364,241	-200,448	-278,778	-1,843,467	-56%
Total Administration Costs	2,704,017	1,360,724	1,390,554	5,455,295	1,184,641	1,109,641	1,036,141	3,330,423	-1,519,376	-251,083	-354,413	-2,124,871	-22%
Total PTL Costs	6,444,158	3,935,698	14,381,384	24,791,240	3,921,819	2,650,126	2,900,797	9,472,743	-2,522,339	-1,285,571	-11,480,586	-15,288,497	-62%

Source: UR and PTL

3.4 Table 1 and 2 shows that PTL is seeking £15.8m more allowance over the three year period of the shadow price control than they actual spent (£8.9m) in the previous shadow price control period and PTL sought to justify the increase based on the following costs:

- PTL’s forecasts on the engineering works cost line includes expenditure associated with two major projects and a major non-routine maintenance operation which relates to the seabed survey of the SNIP. The associated estimated expenditure forecasts are substantial and represent a significant proportion of the total maintenance activity forecast for PTL. Given the substantial expenditure of the two major projects and the uncertainty of the cost estimates we are proposing regarding the costs as provisional and have excluded them from our proposed allowance¹.
- The seabed survey of the SNIP is a full survey and it is forecasted for 2011/12 with a partial survey forecasted for 2013/14. The expenditure proposed is significant with the full seabed survey forecast to cost £900k and the partial seabed survey to cost £351k. The costs forecast are based on actual costs in September 2008 uplifted to September 2011 figures and includes adjustments for euro/stg exchange rate and the current price for diesel. We are proposing to accept PTL’s forecast for the full survey for £900k and are proposing to reduce the seabed survey to £335k. It is difficult to estimate the price of ships therefore we propose to review this cost when tender prices have been received and our determination may include a revised figure.
- There are other significant costs included in the engineering works cost line e.g. Rotork Actuator Replacement, Power supply generator backup, grease lines corrosion etc. At this stage, we consider that PTL has not provided sufficient evidence or adequately justified the expenditure proposed and therefore we are proposing not to allow the forecasted costs. However, should further information be provided we will review this and consider further our proposals.
- The operations cost line forecasts include costs that PTL have included for the upgrade of GTMBS system totally £500,000. This upgrade is partially related to the CAG project and given the timing of CAG remains uncertain we have disallowed these costs.
- We also reviewed the administration costs and we considered that there is more opportunity for PTL’s to reduce costs in what is a steady state environment. Therefore, we are proposing to reduce MEL’s administration costs by a total of £525,000 over the three years i.e. year 1 - £100k, year 2 - £175k and Year 3 - £250k.
- The administration cost line includes costs associated with CAG. As mentioned above, the timing of the CAG project remains uncertain therefore given the substantial expenditure associated with this project and the uncertainty of the cost estimates and timing of the project we are proposing regarding the costs as provisional and have excluded them from our proposed allowance. As with the major

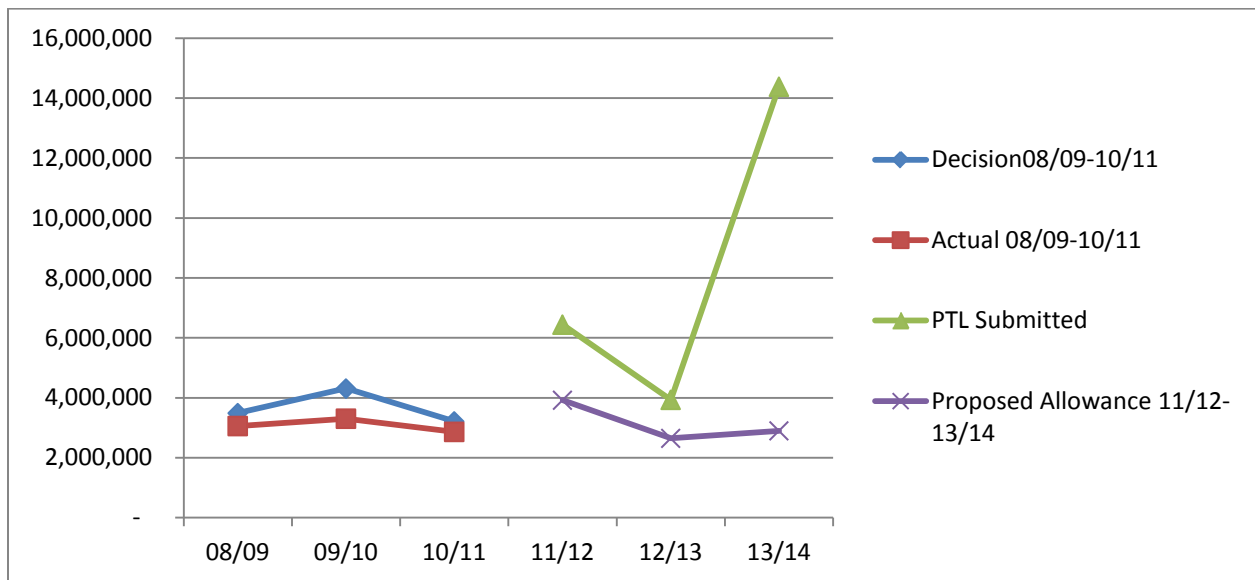
¹ Section 3.1.6 (V) of the licence allows the UR, “following a written request from the Licensee to review Budgeted Controllable Opex (BCO) for any Gas Year, provided that, if such a request is made in respect of the current Gas Year, such request is submitted before 31st of August in that Gas Year”. Should the costs estimates above become more robust and the timing of the costs more certain, the above condition will allow UR to amend the BCO

projects mentioned above, should the timing and the costs associated with CAG become more robust we will consider the request to allow CAG costs.

- A number of other forecast cost allowances proposed have not significantly changed. Table 3 shows that we have reduced marginally PTL's proposals on landowner liaison, crop & drainage settlements and planning.

1.2 Overall, URs proposed allowance for PTL for the three years of the shadow price control period is £240k greater than PTL's actual for the previous shadow price control period. Graph 1 below shows PTL's allowed opex for 08/09-10/11, actual opex for years 08/09-10/11, submitted forecast opex for 11/12-13/14 and UR's proposed allowance for 11/12-13/14.

Graph 1 – Total Controllable Operating Expenditure, Decision and Actual V Forecast, £'000



Source: UR

2 BGTL CONTROLLABLE OPERATING EXPENDITURE FORECASTS

2.1 Table 4 below shows BGTL's proposals for their forecast annual controllable operating expenditure for gas year 2011/12 and the following two years. More detail of the build-up of many of the individual cost lines was also provided by BGTL.

Table 4 – BGTL Operating Expenditure Submission

Cost Item	2011/2012	2012/2013	2013/2014
Maintenance			
Landowner Liaison	13,500	13,500	13,500
Engineering Works	1,219,781	1,106,714	1,365,153
Maintenance Total	1,233,281	1,120,214	1,378,653
Operations			
Operations	52,065	52,065	52,065
Operations Total	52,065	52,065	52,065
Administration			
Insurance	132,000	132,000	132,000
Office costs and other admin	224,614	182,114	182,114
Administration	136,367	137,327	140,767
Total Administration Costs	492,981	451,441	454,881
Total BGTL Opex	1,778,327	1,623,720	1,885,599

Source: BGTL

2.2 Table 5 below shows BGTL's actual annual controllable operating expenditure for gas the gas years 2008/09, 2009/10 and 2010/11.

Table 5 – BGTL Operating Expenditure Actual Costs

Cost Item	2011/2012	2012/2013	2013/2014
Maintenance			
Landowner Liaison	17,452	20,133	10,231
Engineering Works	439,686	744,611	844,207
Maintenance Total	457,138	764,743	854,438
Operations			
Operations	71,381	65,985	48,330
Operations Total	71,381	65,985	48,330
Administration			
Insurance	228,394	76,418	136,136
Office costs and other admin	101,585	177,362	172,618
Administration	242,258	171,335	117,007
Total Administration Costs	572,238	425,114	425,761
Total BGTL Opex	1,100,757	1,255,842	1,328,529

Source: UR

BGTL Opex Summary

2.3 In the table below we set out a summary of the total opex allowances we propose for 2011/12, 2012/13 and 2013/14.

Table 6 – BGTL Operating Expenditure Summary

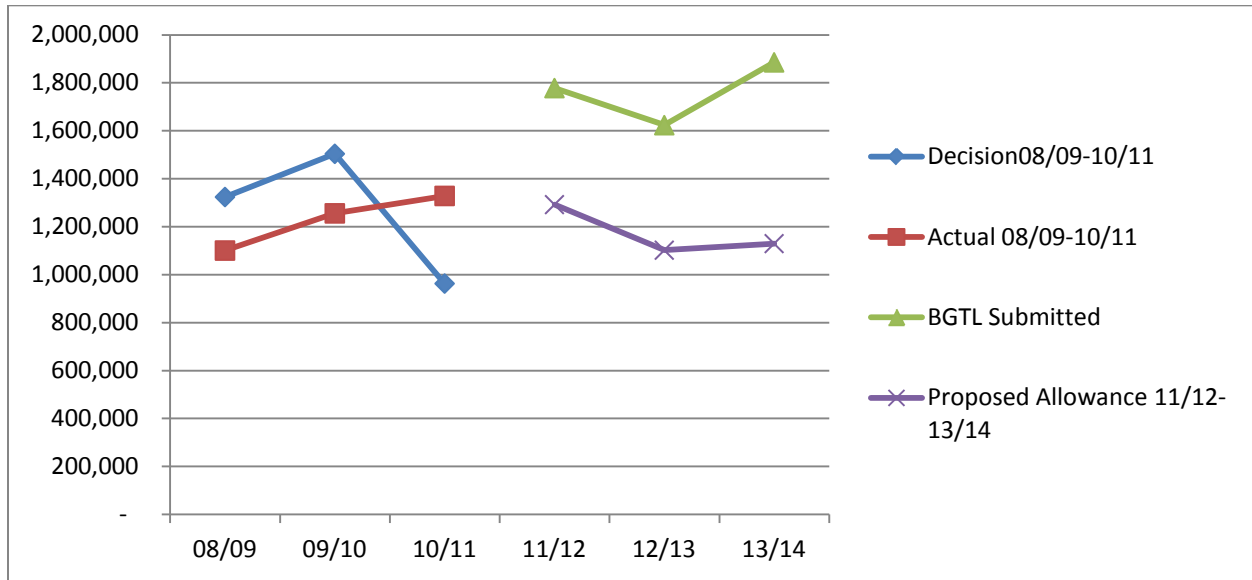
Cost Item	BGTL Submission				UR Proposed Allowance				Difference				
	2011/12	2012/13	2013/14	Total	2011/12	2012/13	2013/14	Total	2011/12	2012/13	2013/14	Total	Total %
Maintenance													
Landowner Liaison	13,500	13,500	13,500	40,500	4,500	4,500	4,500	13,500	-9,000	-9,000	-9,000	-27,000	-67%
Engineering Works	1,219,781	1,106,714	1,365,153	3,691,648	792,484	602,440	629,840	2,024,764	-427,297	-504,273	-735,313	-1,666,883	-45%
Maintenance Total	1,233,281	1,120,214	1,378,653	3,732,148	796,984	606,940	634,340	2,038,264	-436,297	-513,273	-744,313	-1,693,883	-45%
Operations													
Operations	52,065	52,065	52,065	156,195	52,065	52,065	52,065	156,195	-	-	-	-	-
Operations Total	52,065	52,065	52,065	156,195	52,065	52,065	52,065	156,195	-	-	-	-	-
Administration													
Insurance	132,000	132,000	132,000	396,000	132,000	132,000	132,000	396,000	-	-	-	-	-
Office costs and other admin	224,614	182,114	182,114	588,842	184,066	184,066	184,066	552,198	-40,548	1,952	1,952	-36,644	-6%
Administration	136,367	137,327	140,767	414,461	127,248	127,248	127,248	381,744	-9,119	-10,079	-13,519	-32,717	-8%
Total Administration Costs	492,981	451,441	454,881	1,399,303	443,314	443,314	443,314	1,329,942	-49,667	-8,127	-11,567	-69,361	-22%
Total BGTL Costs	1,778,327	1,623,720	1,885,599	5,287,646	1,292,363	1,102,319	1,129,719	3,524,401	-485,964	-521,400	-755,880	-1,763,244	-33%

Source: UR and BGTL

- 2.4 Table 4 shows that BGTL is seeking £1.5m more allowance over the three year period of the shadow price control than they actual spent (£3.6m) in the previous shadow price control period and BGTL sought to justify the increase based on the following costs:
- BGTL's engineering works cost line includes expenditure associated with a major project. The associated estimated expenditure forecasts are substantial and represent a significant proportion of the total maintenance activity forecast for BGTL. Given the substantial expenditure of the project and the uncertainty of the cost estimates we are proposing regarding the costs as provisional and have excluded them from our proposed allowance².
 - There are other significant costs included in the engineering works cost line e.g. Rotork Actuator Replacement, Power supply generator backup, grease lines corrosion etc. At this stage, we consider that BGTL has not provided sufficient evidence or adequately justified the expenditure proposed and therefore we are proposing not to allow the forecasted costs. However, should further information be provided we will review this and consider further our proposals.
 - A number of other forecast cost allowances proposed have not significantly changed. Table 6 above shows that we have reduced marginally BGTL's proposals on landowner liaison and administration.
- 2.5 Overall, URs proposed allowance for BGTL for the three years of the shadow price control period is £160,727 less than BGTL's actuals for the previous shadow price control period. Graph 2 below shows BGTL's allowed opex for 08/09-10/11, actual opex for years 08/09-10/11, submitted forecast opex for 11/12-13/14 and UR's proposed allowance for 11/12-13/14.

² Section 3.1.6 (V) of the licence allows the UR, "following a written request from the Licensee to review Budgeted Controllable Opex (BCO) for any Gas Year, provided that, if such a request is made in respect of the current Gas Year, such request is submitted before 31st of August in that Gas Year". Should the costs estimates above become more robust and the timing of the costs more certain, the above condition will allow UR to amend the BCO.

Graph 2 – Total Controllable Operating Expenditure, Decision and Actual V Forecast, £'000



Source: UR

3 EFFICIENCY FACTOR

Efficiency factor

- 3.1 As part of our review of both the PTL and BGTL controllable operating expenditure we have considered a level of efficiency that we feel is achievable in the businesses over the next three years. As with any price control, the reason for the inclusion of an efficiency factor is to incentivise PTL and BGTL to continue to improve the efficiency at which they operate their respective networks. We have therefore included an efficiency factor in our decision for gas years 2011/12 and the following two years for both PTL and BGTL.
- 3.2 We are proposing to apply an efficiency factor of 1.5% p.a (compounded) of total operating expenditure.
- 3.3 This efficiency factor was used by Ofgem in the one-year rollover (to operating in the period 1 April 2012 to 31 March 2013) to the current gas and electricity transmission price controls (TPCR4) which is due to expire on the 31 March 2012. This is in line with the original TPCR4 proposals.

Impact of efficiency factor on proposed allowance

- 3.4 Following the process set out in section 2, we have come to the following proposed allowance on the PTL and BGTL controllable operating expenditure for gas years 2011/12, 2012/13 and 2013/14.
- 3.5 The table below shows the impact of our proposed allowances including the efficiency factor of 1.5% p.a. (compounded).

Table 7 – PTL Operating Expenditure, UR Proposed Allowance

Cost Item	UR Proposed Allowance		
	11/12	12/13	13/14
Maintenance	1,850,873	731,180	1,050,351
Operations	886,305	809,305	814,305
Administration	1,184,641	1,109,641	1,036,141
Less Efficiency Factor		39,164	85,104
Total Operating Expenditure	3,921,819	2,610,962	2,815,693

Source: UR

Table 8 – BGTL Operating Expenditure, UR Proposed Allowance

Cost Item	UR Proposed Allowance		
	11/12	12/13	13/14
Maintenance	796,984	606,940	634,340
Operations	52,065	52,065	52,065
Administration	443,314	443,314	443,314
Less Efficiency Factor		16,290	33,144
Total Operating Expenditure	1,292,363	1,086,029	1,096,575

Source: UR

Summary of Proposals

3.6 In summary our minded to decision for the PTL and BGTL controllable operating expenditure for gas years 2011/12, 2012/13, 2013/14 is as follows:

Table 9 – Proposed Allowances, £m

Cost Item	Submission				UR Proposal				Difference	
	11/12	12/13	13/14	Total	11/12	12/13	13/14	Total	Total	Total, %
PTL Opex allowance	6.4	3.9	14.3	24.8	3.9	2.6	2.8	9.3	-15.5	-61%
BGTL allowance	1.8	1.6	1.9	5.3	1.3	1.1	1.1	3.5	-1.8	-34%

Source: PTL/BGTL and the Utility Regulator

Customer impact

3.7 From table 8 below you can see that the impact of our proposals would mean a decrease of £0.67p on the domestic consumer's annual tariff against the previous decision for PTL and a decrease of £0.08p for BGTL. The table also shows the impact of the UR proposed allowance against PTL's and BGTL's proposed allowance. If UR had accepted PTL's and BGTL's proposed allowance then the domestic customer would have been £4.58 per annum worse off in the case of PTL and £0.50p worse off for BGTL.

Table 10 – Impact on customers of opex and capex allowances

Impact on Consumers	UR proposed allowance V PTL previous decision	PTL proposed allowance V UR proposed allowance
Domestic consumer	Decrease of £0.67p	Decrease of £4.58
	UR proposed allowance V BGTL previous decision	BGTL proposed allowance V UR proposed allowance
Domestic consumer	Decrease of £0.08p	Decrease of £0.50p
AQ=400 therms Load factor = 37.5%		

Source: Utility Regulator

These are indicative and depend on assumptions made

APPENDIX 1 – PTL FORECAST COST LINES

The following is a brief explanation of what the above forecasts for maintenance, operations and administrations cost lines cover:

Maintenance

- Land Management/Landowner Liaison – this covers the cost of PTL's land liaison officer who acts as the on-the-ground interface between the Scottish land-owners and PTL. This cost line also covers any claims for drainage settlements with farmers.
- Annual Engineering Works – this cost line relates to any maintenance, surveying and inspection work on the pipeline, regulators, meters and chromatographs and includes the survey of the offshore pipe. Other engineering work includes inspection and replacement of meters, regulators, the uninterruptible power supplies (UPS), chromatographs, above ground installations (AGIs), security and overhauls of water-baths.
- MERC – The maintenance and emergency response contract (MERC) with Scotia Gas Networks which includes emergencies and routine inspections as well as a 24/7 call out and ancillary work such as AGI maintenance.
- Engineering Compliance – this cost line covers an engineering audit, safety case review, an Emergency exercise, subsea hazard analysis and specialised consultant support.

Operations

- System Planning – covers the appointment of an external consultant for any network analysis required.
- Network Code – costs associated with the Gas Trading Management and Billing System (GTMBBS) which (inter alia) records all nominations and allocations and enables shippers to be billed. These costs relate to software licence fees, hosting charges, shipper access costs and system training.
- SCADA and Communications – costs relating to the communication routes between the meters and the SNIP agent including any call out charges, telephone line costs and technical support.
- SNIP Agent – costs charged by BGE for the commercial and operational running of SNIP including any costs related to the 24 hour control room in Cork.
- Software – costs in relation to the maintenance of the SCADA system including any modifications. This cost line also covers costs incurred by PTL for the provision of maps and Geographic Information Systems (GIS) costs.

Administration

- Insurance – covers insurance for the physical assets, third party liability insurance and office/staff insurance.
- Office Costs – relates to the cost of the Ormeau Road office and any associated costs.
- Salary and Associated Costs – the costs associated with the staff remuneration.
- MEL Recharges – any office, staff, audit, accountancy, legal and expenses incurred by MEL and recharged to PTL.

PTL Uncontrollable Operating Expenditure

- Certain operating expenditure costs will be defined as uncontrollable as they are costs which PTL and BGTL are considered to have no direct control over. These costs, known as uncontrollable costs will therefore not be subject to review in this process although the Utility Regulator will monitor such costs on an annual basis to ensure they are being efficiently incurred. For PTL these include:
 - any costs that relate to the Transportation Agreement between BGE and PTL for Northern Ireland's capacity allocation between Moffat and Twynholm;
 - Rates; and
 - Utility Regulator Licence Fees.

APPENDIX 2 – BGTL FORECAST COST LINES

Maintenance

- Land Management – relates to the costs associated with the liaison with landowners and payments to landowners to cover land drainage costs.
- Annual Engineering Work – costs associated with the maintenance of the meters, boilers, UPS and regulators. Also covers an intelligent pig inspection and ROV of the pipeline as well as health and safety work at the pressure reduction stations. Other engineering work includes security provisions, electricity charges and site inspections.
- MERC – contract with Scotia Gas Networks which includes emergencies and routine inspections as well as 24/7 call out and ancillary work.
- Engineering Compliance – this cost line covers consultancy support, emergency exercise costs and safety case review costs.

Operations

- SCADA and Communications – costs relating to communication between the meters and the SNIP agent.
- SNIP Agent – BGTL's proportion of BGE control room costs for the operation of their pipeline.

Administration

- Insurance – covers insurance for the physical assets and third party liability insurance.
- Office Costs – relates BGTL's proportion of Ormeau Road office costs and any associated costs.
- Salary and Associated Costs – the proportion of BGTL costs associated with the staff remuneration.
- NIEH Recharges – any office, staff, audit, accountancy, legal and expenses incurred by NIEH and recharged to BGTL.

BGTL Uncontrollable Operating Expenditure

- As stated in section 6 there are specific costs which are outside of the control of both PTL and BGTL. For BGTL these uncontrollable operating costs include:
- Rates; and
- Utility Regulator Licence Fees