

Gas Network Extensions Northern Ireland

Gas to the West – Clarifications (1 – 9)

N ^o	Clarification	Utility Regulator Response
1	<p>Applicant Information Pack, section 4.19 and the weighting criteria, and the published criteria for gas licence applications and applications for consent to construct major-pipelines, gas storage or LNG facilities, sections 3.17, 3.18 & 3.21</p> <p>Is there a further breakdown of the percentage allocation i.e. Applicant Determined Costs, Operational Business Plan and Innovation and Technology Transfer?</p>	<p>The Published Criteria set out the marking scheme which the Authority is required to following when judging applications.</p> <p>Section 3.14 (b) of the criteria provides the breakdown for application determined costs, operational business plan and innovation and technology transfer. There is no further breakdown.</p>
2	<p>In the workbooks the capital expenditure is three years for transmission and three years for distribution, could the overall programme be considered as six years? If the three years are exceeded in transmission or distribution how will the costs be treated or would there be penalties applied?</p>	<p>The high pressure workbook assumes a capital expenditure period of three years between the award of licence and first commencement date. The low pressure workbook assumes a capital expenditure period of forty years from the first commencement date.</p> <p>These workbooks make these assumptions purely for the purpose of the competition. It is recognised that, in practice capital expenditure on the high pressure network may continue after the first commencement date, and that capital expenditure on the low pressure network may begin before the first commencement date.</p>
3	<p>Conclusions Paper, section 2.41 & 2.42. It is stated operating expenditure costs will not be competed on, and applicants should set out their proposals in the Operational Business Plan. The Operational Business Plan is weighted as 40%; therefore will the Opex costs be assessed under this heading or is it the intention that the successful applicant would undergo an Opex price control process at some point between the award of</p>	<p>Paragraph 2.41 states clearly that operating expenditure will not be considered as part of the application process for the high pressure licence.</p> <p>Paragraph 2.42 relates to a situation where an applicant has indicated that their application has been made assuming an operating cost pass through form of control. In this case the applicant will need to include in ‘other costs’ any costs relating to the establishment of arrangements to ensure that the pass through model cannot be used to the detriment of consumers. Applicants will need to justify these establishment costs in</p>

	the licence and the first operational commencement date, at which point costs will be revealed?	<p>their Operational Business Plan.</p> <p>The process by which operating cost allowances will be established following the grant of licence will be dependent on whether the successful applicant has chosen a ‘revenue cap’ or ‘cost pass through’ form of control with regard to operating costs.</p> <p>Those applicants choosing the ‘revenue cap’ option should expect that operating cost allowances will be determined in advance of the pipeline beginning commercial operations by means of a price control process.</p>
4	In the excel workbook, capital expenditure for construction is hardwired in, does this include construction supervision or is construction supervision to be competed on in the design and project management section?	<p>In the case of the high pressure workbook:</p> <p>All costs of work required by the licence holder to supervise construction including technical or cost assurance, design of the works, management or supervision of the construction contract, vetting the proposals of the contractor or vetting the statements issued by the contractor for payment should be included in the ‘design and project management cost’.</p> <p>As part of the operational business plan, the applicant should include a clear statement of these costs in its application, including quantum, and explain the scope of these services and identify any of these services it plans to procure through another party.</p>
5	Applicant Information Pack, section 4.6 VII, Is it correct the applicant publishes in the newspapers post submission of the application? Is proof of publication required i.e. submission of newspaper notices to the Utility Regulator within 14 days of publication?	<p>Yes, it is correct the applicant publishes in the newspapers post submission of the application.¹</p> <p>Yes, proof of publication is required and a copy of the publication should be sent to the Utility Regulator as soon as is practicable after publication.</p>
6	Applicant Information Pack, section 4.6 V, Bearing in mind the newspapers may publish on different dates, should the	This is not a stipulated requirement. However it would be a sensible approach to publish the notices as close to each other in time as is reasonably practical.

¹ The Gas Order, section 8 (3)

	newspapers notices appear as reasonably close as practical .i.e. within few days of each other?	
7	<p>Applicant Information Pack, section 4.6 IV, Is there any restriction on email sizes accepted by Utility Regulator? Can softcopies of application be submitted on CD in addition to 3 hardcopies if required?</p>	<p>In order for the application to fall within the deadline both the hard copies and the electronic copy, must have been received by 12.00 noon on Tuesday 6 May 2014. Should an applicant wish to provide an electronic copy of their application on a CD ROM rather than by email, this will be deemed as acceptable by the Utility Regulator.</p> <p>In relation to email sizes, we advise that should these be greater than 50 MB the applicant should discuss this with us in advance so that we might have time to make the necessary arrangements.</p>
8	<p>The following question relates to the capital expenditure special conditions in the high pressure licence.</p> <p>Please can UR confirm the intended application of the pain gain sharing mechanism including:</p> <ul style="list-style-type: none"> • When the setting of capex allowances will take place? • Will these allowances be the final allowances that will be used for the purposes of applying the pain gain sharing mechanism? • Will the contingency figure included in the bidders case be added to any allowable capex or will it be subject to determination as part of allowable capex? • When the process of applying the pain gain sharing mechanism will take place? • How the pain gain sharing mechanism will be implemented including a worked example of how this will be facilitated in practice i.e. demonstrating time periods and costs. 	<p>Paragraph 3.16 of the Applicant Information Pack addresses the timing of setting capital expenditure allowances in the high pressure licence.</p> <p><i>In relation to the timing of the setting of capex allowances we plan to do so after materials have been purchased and after the construction tender has been completed in line with previous high pressure pipelines projects.</i></p> <p>These allowances for controllable capital expenditure will be the final allowances which will be used for the purpose of applying the pain gain mechanism.</p> <p>It is our intention that the contingency costs revealed in the licence application process should as far as is reasonable be reflected in the determination of final allowances.</p> <p>The pain gain mechanism will be applied once the actual level of controllable capital expenditure incurred has been verified and either approved or determined by us.</p> <p>In paragraph 3.13 of the application information pack we stated that <i>“The sharing factor will be 35 % and symmetrical, i.e. if the licensee under spends they will give 35% of the under spend</i></p>

		<p><i>back, and customers will underwrite 35% of any overspend.”</i></p> <p>We now wish to correct this statement as it is not based on the GB standard. The corrected last line of paragraph 3.13 should read <i>“The sharing factor will be 35%/65% for example - if the licensee under spends they will give 65% of the under spend back, and customers will underwrite 65% of any overspend.”</i></p> <p>For example if the controllable capital allowance is set at £100 but the verified actual controllable capital expenditure is £110 then the licence holder will have their final controllable capital allowance adjusted to £106.50. If however the verified actual controllable capital expenditure is £90 then the licence holder will have their final controllable capital allowance adjusted to £93.50. These adjustments will not be subject to any later rolling mechanism.</p>
9	Is there any deadline beyond which questions of clarification will not be answered?	<p>The deadline for receipt of clarification questions will be 12.00 noon on Monday 7 April 2014. This will ensure that all applicants have time to fully consider the responses provided by the Utility Regulator.</p>