

Abigail McEwan
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9th October 2018

Ref: NET/G/TH/14

Dear Abigail

Final Allowances in relation to Whitehead and interaction with Uncertainty Mechanism

Having received the PNLG Whitehead extension submission of 3rd May 2018, you are aware that we subsequently consulted on and approved modifications to the PNLG gas conveyance licence to include the wards of Whitehead and Blackhead.

It is necessary at this stage to confirm the rates, allowances and target adjustments that are necessary for this extension, this will ensure there is no ambiguity in this area going forward for either party.

Allowance/Target Adjustment

Even though this extension does not include a large I&C connection, we deem this to fall under the 'Additional Projects' area as outlined in the GD17 Final Determination.

The following sections consider the individual areas applicable in greater detail:

- **TMA** – No additional allowance is given above that stated in the GD17 final determination, however, should legislation come into force in the GD17 period then this will be adjusted accordingly using the uncertainty mechanism.
- **4 Bar Spine Mains** – Using the GD17 determined rates, up to a maximum total of £420,792 (2014 prices and post efficiency) will be allowed for 4 bar spine mains in order to link the Whitehead area to the existing network, this allowance is initially allocated to 2018. This is subject to laying the 4,235m of 4 bar spine mains outlined in the project final submission and equates to a rate of £99.36 (Sep 2014 prices and post efficiency).

We will verify the outputs of this main laying and any adjustments necessary will be made through the uncertainty mechanism. Therefore it will be necessary to report separately on Whitehead 4 bar spine mains.

- **Feeder & Infill Mains** – Allowance given for 'other' properties passed at the average rate of £67.76 (Sep 2014 prices and post efficiency). We will allow up to a maximum average of 9.0m per property passed, equating to an average value of £609.81/pp. The targeted annual properties passed relating to whitehead are as follows:

	2017	2018	2019	2020	2021	2022
OO	0	0	543	543	543	0
NIHE	0	0	59	59	59	0
I&C	0	0	17	16	16	0
Total	0	0	619	618	618	0

Allowance in relation to 'new build' properties passed are the same as those outlined in GD17 final determination para 7.116. For the avoidance of doubt, this is up to a maximum average 9.5m/pp at a rate of £46.50/m (Sep 2014 prices and post efficiency).

'Other' properties passed will require separate reporting for the Whitehead extension given the different rates assessed for such properties passed.

- **Domestic Services & Meters** – Allowances in this regard will be based on GD17 final determination allowances and will be awarded through the GD17 Uncertainty mechanism. This will ensure all connections made will receive appropriate allowances for services and meters at the actual point of connection and performance will be within the control of PNGL.
- **I&C Services & Meters** – Allowances in this regard will be based on GD17 final determination allowances and will be awarded through the GD17 Uncertainty mechanism. This will ensure all connections made will receive appropriate allowances for services and meters, based on customer size, at the actual point of connection and performance will be within the control of PNGL.
- **Opex** – With the exception of connection incentives, no other additional allowance above the GD17 opex allowances will be granted in relation to this extension.

Connection incentives are in respect of opex relating to OO connections, this will be allowed at the GD17 rate per additional connection gained from this project. However, in this regard an adjustment will be made to the non-additional target set in the GD17 final determination.

For the avoidance of doubt, the non-additional target set as part of the GD17 final determination, will be adjusted to reflect the OO connections gained from this extension that are assumed to convert without any marketing or direct selling.

This will adjust the non-additional connections in the Uncertainty Mechanism as per the following table:

	2017	2018	2019	2020	2021	2022
GD17 OO Connections Target	5,000	4,900	4,800	4,700	4,600	4,500
Whitehead OO Connection Target	0	0	25	75	75	75
Total OO Connection Target	5,000	4,900	4,825	4,775	4,675	4,575
Revised Non-additional connections at 33%	1,650	1,617	1,592	1,576	1,543	1,510

- **PP Target** – It will not be necessary to adjust GD17 PP targets as set out in our GD17 final determination, as we do not regard the properties passed associated within this project to be included within the PP incentive mechanism. This will help to avoid any confusion when calculating any uncertainty mechanism adjustment in relation to the GD17 period.

I trust this is clear but please feel free to get in touch with the office if you have any queries.

Yours sincerely,



Tanya Hedley
Director of Networks

