

Brian Mullins
Regulatory Affairs
GNI (UK) Limited
Gasworks Road
Cork
T12 RX96

Ref: NET/G/RM/63

15 February 2019

Dear Brian,

Re: Actual Final Capital Expenditure (AFCE) Decisions

Following recent engagement, I am writing to inform you of UR decisions required under Condition 2.2.2 (f) and (g) of the GNI (UK) licence. These determinations finalise the AFCE and ex-AFCE allowance for gas transmission pipelines.

Approvals relate to the following assets:

- North West Pipeline (NWP)
- North West Pipeline Spurs Project (NWPSP)
- South North Pipeline (SNP)
- South North Pipeline Spurs Project (SNPSP)

Methodology

The method for determining pipeline capex allowances is as follows:

- a) GNI (UK) submits a forecast of capital costs based on tendered rates.
- b) UR determines the Verified Forecast Capital Expenditure (VFCE) budget.
- c) Post construction, GNI (UK) submit details of the actual costs and timings.
- d) After reviewing actuals, UR approves or determines the AFCE allowance.
- e) UR determines the ex-AFCE (uncontrollable) costs in a similar fashion.

Finalising the AFCE and ex-AFCE allowances for the pipelines will determine the capital repayments required from customers for these assets.

Decisions will also fix the 'pain/gain' amount which exists on the NWP and SNP (but not their spurs). This adjustment is dependent upon the materiality between the VFCE and the determined AFCE.

History

A timeline of events in reaching these decisions is provided below:

- 1) UR conducted a detailed audit of pipeline costs in 2010 (with the exception of the Kernan-Derryhale spur).
- 2) Correspondence in early 2011 set out the UR 'minded to' position for the NWP, SNP and their spurs (excluding the Kernan pipeline).
- 3) The process was not finalised due to the level of accruals in the figures i.e. forecasts rather than actual expenditure.
- 4) Updated submissions were received in January 2017 on all pipelines.
- 5) This was followed by a query process and updated cost submissions provided by GNI (UK) in September 2017.
- 6) A 'minded-to' decision paper was issued to GNI (UK) in November 2018 for TSO comment, as per the licence requirement.
- 7) GNI (UK) responded in January 2019 to the provisional decision.
- 8) The AFCE and ex-AFCE decisions for NWP, SNP and their spurs were made by the UR Board at a meeting on the 7 February 2019.

Decisions

The table below details the UR decisions on controllable (AFCE) and uncontrollable (ex-AFCE) costs and compares these to the VFCE and GNI (UK)'s proposed figures.

UR Final Allowances

Cost Category	NWP (£m)	NWPSP (£m)	SNP (£m)	SNPSP (£m)	Total (£m)
VFCE Budget	59.50	9.12	90.80	5.76	165.18
Ex-VFCE Budget	4.72	0.36	6.02	0.00	11.10
Total VFCE	64.22	9.48	96.82	5.76	176.28
AFCE Costs	58.13	8.22	85.46	4.66	156.46
Ex-AFCE Costs	3.82	0.13	6.59	0.00	10.54
GNI (UK) Figures - AFCE	61.94	8.35	92.05	4.66	167.00
AFCE Costs	57.94	8.22	85.79	4.66	156.61
Ex-AFCE Costs	3.82	0.13	6.26	0.00	10.20
UR Decision - AFCE	61.76	8.35	92.05	4.66	166.81

N.B. Figures are given in nominal terms and may not sum due to rounding

The overall controllable and uncontrollable construction budget was £176.3m for the pipelines in question. GNI (UK) reported actual spend of £167.0m with the UR providing an allowance of £166.8m.

The final figures include provision for accruals of c. £1.3m to resolve remaining wayleave disputes. This reflects a full accrual allowance against what was requested by GNI (UK).

As per Condition 2.2.2 (f) and (g), final AFCE and ex-AFCE values are determined as £156.6m and £10.2m respectively, in line with the table above.

Total underspend is now £9.5m against allowances. Controllable costs on the NWP and SNP subject to 'pain/gain' are now £6.6m (4.4%) below VFCE budget. This results in a £4.9m (£6.6m * 75%) reduction in the opening asset values (OAVs) of the pipelines in question.

Full explanation of the UR decisions is provided in a separate paper which includes commercially confidential information. This decision concludes the AFCE process for GNI (UK)'s transmission pipelines excluding Kernan, which will be subject to a separate audit.

Yours sincerely,



Roisin McLaughlin
Head of Network Operations