



Gas to the West (responses to email from Utility Regulator, 09th May 2014)

Submitted to: The Northern Ireland Authority for Utility Regulation

Submitted by: BGE (UK) Limited

Date: Wednesday, 14th May 2014

BGE (UK) response to following questions received from the Utility Regulator by email 09th May 2014

Question:

In accordance with paragraph 2.8 of the DETI Published Criteria each applicant must demonstrate to our satisfaction that it has, or will have, in place adequate resources (as more fully described in that paragraph). As indicated at paragraph 4.8 of the Applicant Information Pack, this is a general criterion that each applicant must meet. It is unclear from your applications on what information you wish to rely for the purpose of demonstrating that this criterion is met.

Please provide a statement of the information on which you wish to rely in relation to the criterion at paragraph 2.8 of the DETI Published Criteria, or indicate clearly in what parts of your licence applications the information on which you wish to rely for this purpose has already been set out.

Reference:

Published Criteria –

“2.8 An Applicant must demonstrate to the satisfaction of the Authority that it has in place at the time of the Application, or is making appropriate arrangements to ensure that it would have in place by such time as it would commence regulated activities under the licence:

(a) the systems and apparatus;

(b) the human and other resources; and

(c) the financial resources and facilities,

that are likely to be sufficient for it to be able to comply with the Standard Licence Conditions applicable to that licence, together with such other conditions as the Authority indicates that it would propose to include in the licence if it (or the extension of it) were granted.”

Applicant Information Pack –

“4.8. Any applicant who wishes to apply for the licences available must meet each of the general criteria in section two of the Published Criteria. These cover the provision of information; the constitution of an applicant; an applicant’s ability to demonstrate that they are fit and proper and that an applicant have or will have the adequate resources to commence regulated activities under the licence. “

BGE (UK) Response:

BGE (UK) has been operating in Northern Ireland since it first constructed the Northwest pipeline in 2004 and firmly believe with our proven track record that we are best placed to deliver this project based on our history of pipeline management, pipeline routing and construction expertise.

We have resources available which will accelerate the mobilisation phase of the project and we will be in a position to redeploy resources immediately as a number of transmission pipelines will be completed in 2014. There is a commitment from the Managing Director and Executive Management team to apply whatever resources are necessary in addition to the support from our parent organisation to deliver the GTTW project successfully for the benefit of the Northern Ireland consumer.

Our acceleration of the project is achieved through our existing systems in place through operation of our existing assets in Northern Ireland over the past ten years.

In our Operational Business Plan, we have set out the relevant sections which relate to the response to the questions raised. The existing systems will be utilised for the Gas to the West project, as set out in our Operational Business Plan.

We have set out our organisational structure and project team to deliver the GTTW project which will be supported by our existing operational team in Northern Ireland to deliver the project successfully.

(a) the systems and apparatus;**Operational Business Plan, Section 2.3**

This section presents the systems in place surrounding competency and accountability of our staff. It includes a description of the Employee Development Programme which aims to deliver systematic career development and planning.

The Gas Technical Competency and Integrated Competency Frameworks allow our organisation demonstrate that its employees are technically proficient in their area of expertise.

Operational Business Plan, Section 3.5

This section states that BGE (UK) and Bord Gais Networks already having existing systems in place such as the asset management system "Maximo", SCADA and GTMS. These are used in the Republic of Ireland and Northern Ireland and therefore we do not envisage any new systems.

The GTTW project will leverage off these existing systems, which is an advantage for the project.

Operational Business Plan, Section 3.7

This section outlines the processes and systems in place with regard to project cost control, system operations, risk management and quality control.

Operational Business Plan, Section 4.0

This section provides an overview of the policies and procedures in place with regard to risk management, quality control and asset records.

Operational Business Plan, Section 4.1.5

This section sets out the emergency arrangements in place regarding gas emergency response.

Operational Business Plan, Section 4.5

This section sets out our IT capability and relevant systems which already exist which will be advantageous in the mobilisation of the GTTW project.

BGE (UK) IT capability and experience will be a significant contributor to support the GTTW project.

This experience and the relevant systems portfolio and investment which already exists within BGE (UK) will support the GTTW project and at a lower cost than any new green field organisation.

This section also identifies the role of IBM Maximo Asset Management as the key Enterprise Asset Management System. Assets are managed in Maximo through the full lifecycle from commissioning through to disposal. Integrated into Maximo is SAP Syclo Work Management which provides mobile work management capabilities used by field workers and additionally Click Schedule is also integrated to provide job scheduling, optimisation and dispatch functions. Operational and Management reporting is provided both by BIRT reporting in Maximo as well as through SAP Business Objects which reports against an Enterprise Data Warehouse.

Operational Business Plan, Section 5.5

This section identifies our approach to health and safety, environment, equipment installation and the systems we have in place to ensure safe and efficient operation of the gas network.

Operational Business Plan, Section 5.5.8

This section sets out our existing SCADA arrangements in place ensuring safe and efficient operation of the gas network.

Operational Business Plan, Section 5.7

This section sets out our capital investment process, governance, approval of capital expenditure and our approach to implementation of an Asset Management System.

(b) the human and other resources;

This section is answered in terms of adequate level of resources and adequate ability of resources.

Schedule II, Part 8:

This section relates to Competence of Employees, Competence Assessment and Training of Personnel.

Appendix A

This appendix sets out the CV's for key personnel within the organisation and project team who will be responsible for the delivery of the GTTW project.

Operational Business Plan, Section 2.1

This section sets out how BGE (UK) will be utilising the experience and capability of Bord Gais Networks in the delivery of the GTTW project.

Operational Business Plan, Section 2.2

Bord Gais Networks has approximately 500 employees engaged across its business. The majority are engaged in the Asset Management, Asset Operations, Health, Safety, Quality, and Environment (HSQE) and Regulatory areas. The functions of Finance, Human Resources, Information Technology and Shared Services provide support services to the Networks business and help ensure the efficient and effective operation of the organisation.

This is a highly proficient and lean operating model introduced to Bord Gais Networks following a company restructuring in 2010 to an Asset Centric organisation. In parallel, new asset information software systems were introduced which allowed Bord Gais Networks real time data visibility from field mobility devices; this resulted in streamlining of operational planned maintenance activities, thereby moving to a lean field operational workforce.

Where appropriate Bord Gais Networks employs an outsourced model for certain activities. Key underlying principles are that services are provided in a cost effective manner and that Networks can react to the "peaks and troughs" of demand for services in a timely and cost effective way. The frameworks in place are well established with key organisations that provide highly competent and competitive services. There needs to be a strong business case for utilising the framework contracts as we continually seek to develop our own in-house resources as required, for example, we have a graduate programme in place.

Operational Business Plan, Section 3.1

The section outlines the level of experience, supported by CV's in Appendix A, our project team structure and our capability in the areas of design, wayleaves, cost control, tendering and evaluation, project management and commissioning for the delivery of the GTTW project.

Operational Business Plan, Section 3.2

This section sets out our commitment by the Managing Director and the Executive Management team to apply whatever resources necessary to deliver the project. Similar to previous pipelines successfully delivered in Northern Ireland the Project Management Team will have the full support of the Bord Gais Networks organisation. We have set out in section 3.1 that a Steering Group will be in place and the Project Management Team will report into the Steering Group on a monthly basis. There is a commitment from the Managing Director and the Executive Management team to apply whatever resources are necessary to deliver the GTTW project for the benefit of the Northern Ireland consumer.

The Project Management Team through the various business leads for Asset Management, Asset Operations, Finance and Markets and Regulatory affairs will manage internal and external resources in the respective areas to deliver the GTTW project.

(c) the financial resources and facilities,

BGE(UK)s application(s) included the following statement in Schedule II, Part 5.

Schedule II, Part 5:

As per our 2012 Financial Statements, Bord Gáis Éireann had debt facilities amounting to €2.25 billion and access to substantial liquidity including over €300m in Cash & Cash equivalents and a further €750m in available Finance facilities. Bord Gáis Éireann's Network business generated EBITDA of €300m in that year. Bord Gáis Éireann continues to have a wide diversity of funding sources including the Euro Bond Market, US PP Markets, Commercial Bank Facilities, EIB, ECA linked facilities and project Finance. Bord Gáis Éireann has demonstrated capabilities of funding large infrastructure projects in the past including the South North Pipeline and the North West Pipeline in Northern Ireland.

BGE (UK) Limited proposes that the 'Gas to the West' project would be financed in a similar fashion to the South North and North West Pipelines, that is via corporate finance provided by Bord Gais Eireann (BGE) as it is the ultimate controlling party of BGE (UK) Limited. The details relating to the previous funding of the South North Pipeline and the North West Pipeline are contained within the appendix to Schedule II, Part 5. (BGE (UK) Financial Statements for the Year Ended 31st December 2013 - Pg 19, Notes 18 and 19). We will draw your attention to the fact that BGE is committed to financing of BGE (UK) Limited on a rolling basis.

Prior to submitting applications for the licence to be awarded under the 'Gas to the West' Project, BGE (UK) Limited received the approval of the Boards of Directors of BGE (UK) Limited and BGE to make the applications. The amounts indicated by NIAUR as being required (c. £97.24m) for the completion of the project have been incorporated into the consolidated BGE financial plans and it has been confirmed that the requisite financial resources are available

and will be made available to BGE (UK) Limited in order to complete the project should BGE(UK) Limited be awarded the licence.

The response below relates to **Sections 3.9 and 3.10 of the Published Criteria** “Financial Resources and Standing”. The requirements in this regard are referenced also in Section 4.10-4.14 of the Applicant Information Pack as requested in Question 2 of the e-mail of 9th May.

DETI Published Criteria Reference

Financial Resources and Standing

- 3.9 An Applicant must demonstrate that it has the resources and financial standing to undertake the activities which would be the subject of obligations set out in any conditions (including the Standard Licence Conditions) which the Authority indicates it would propose to include in the licence (or extension of licence) if it were granted.
- 3.10 An Applicant is to be treated as having met this criterion if it demonstrates to the satisfaction of the Authority that it has, or can obtain, access to financial resources at least equal to 120% of the amount of capital that is specified by the Authority as the minimum amount that is required, in the Authority’s opinion, to be available to the holder of the licence.

Operational Business Plan Reference

- 4.14. The following is a list of some of the categories of information and evidence that applicants might provide for the purposes of demonstrating that they meet the Financial Resources and Standing criteria. It is intended as an indication of what we might expect to see, but is neither an exhaustive list nor an indication that the Utility Regulator would regard any particular category of information or evidence, in any individual case, as sufficient to demonstrate that the criterion is met.
- III. Where the applicant proposes to fund the new gas network using corporate finance, the applicant could provide evidence to demonstrate that the net assets of the applicant are at least equal to 100% of the amount of that corporate finance. The net assets should be consistent with the latest audited accounts and/or adjusted for any significant changes since that balance sheet date.

BGE (UK) Response

BGE (UK)s application(s) included the following statement in Schedule II, Part 5.

Schedule II, Part 5:

As per our 2012 Financial Statements, Bord Gáis Éireann had debt facilities amounting to €2.25 billion and access to substantial liquidity including over €300m in Cash & Cash equivalents and a further €750m in available Finance facilities. Bord Gáis Éireann’s Network business generated EBITDA of €300m in that year. Bord Gáis Éireann continues to have a wide diversity of funding sources including the Euro Bond Market, US PP Markets, Commercial Bank Facilities, EIB, ECA linked facilities and project Finance. Bord Gáis Éireann has demonstrated capabilities of funding large infrastructure projects in the past including the South North Pipeline and the North West Pipeline in Northern Ireland.

BGE (UK) Limited proposes that the 'Gas to the West' project would be financed in a similar fashion to the South North and North West Pipelines, that is via corporate finance provided by Bord Gais Eireann as it is the ultimate controlling party of BGE (UK) Limited. The details relating to the previous funding of the South North Pipeline and the North West Pipeline are contained within the appendix to Schedule II, Part 5. (BGE (UK) Financial Statements for the Year Ended 31st December 2013 - Pg 19, Notes 18 and 19). We will draw your attention to the fact that BGE is committed to financing of BGE (UK) Limited on a rolling basis.

As required under Section 4.14 III of the Applicant Information Pack we confirm that BGE has net assets that are at least equal to 100% of the amount of the corporate finance required for the project (pg. 83 of 2012 BGE Financial Statements – "Total equity attributable to equity holders of the Parent" - €1,514,818). Sections 4.13 and 4.14 of the Applicant Information Pack state that £97.24m as the minimum amount that the applicant must have access to in applying for the high pressure pipeline licence. Specifically, it must be demonstrated that that the applicant must have access to 120% of this amount of capital. As per Schedule II, Part 5 of the Application BGE has, per its Annual Accounts for the year 2012, over €300m (pg. 83 of 2012 BGE Financial Statements) in Cash and Cash Equivalents as well as a further €750m (pg. 18 of 2012 BGE Financial Statements) in available Finance facilities. This information can be found in the Financial Statements for BGE which were included as an appendix to the application.

As stated in Schedule II, Part 2, the BGE consolidated Group Financial Statements for the years ended 31st December 2013 are not yet available but we can confirm that there has been no material change to the Financial Resources on which BGE (UK) Limited has proposed to rely for the purposes of completing the 'Gas to the West' project – that is to say, the net assets of BGE remain in excess of 100% of £97.24m and there is capital available to BGE (UK) Limited of greater than 120% of £97.24m in the form of either or both of 'Cash or Cash Equivalents' or Finance Facilities.

Prior to submitting applications for the licence to be awarded under the 'Gas to the West' Project, BGE (UK) Limited received the approval of the Boards of Directors of BGE (UK) Limited and BGE to make the applications. The amounts indicated by NIAUR as being required (c. £97.24m) for the completion of the project have been incorporated into the consolidated BGE financial plans and it has been confirmed that the requisite financial resources are available and will be made available to BGE(UK) Limited in order to complete the project should BGE (UK) Limited be awarded the licence.