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13 May 2014

Dear ██████████

Clarifications on SGN NI Ltd Low Pressure Bid

In response to your clarification question concerning SGN Northern Ireland, (as part of the SGN group) and our ability to demonstrate we meet the section 2.8 requirements of the Published criteria, the statement attached will detail support for these requirements.

An applicant must demonstrate to the satisfaction of the Authority that it has in place at the time of making 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**
- (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.

- (a) the systems and apparatus**

Holding distribution licences in both Scotland and the south of England, we are the second largest network operator in the UK. We currently operate 74,000km of network infrastructure, and manage the industry interfaces for 5.8 million customers. In the last 5 years we have delivered some 100,000 new connections and in 2012/13 alone we added 45km of new mains infrastructure to existing housing and 17,000 services (some 7000 of which were to properties classed as fuel poor). Our existing system and processes have been developed to support this activity and have underpinned our current ranking as first and second out of the eight GB network operators for opex efficiency, our consistently high ranking for customer service and ensure that we meet our provision of emergency service standards even in the harshest of winters.

We fully understand the challenge presented by this licence opportunity and will use our existing experience and feedback from the NI gas market to develop supporting systems and apparatus that will from the outset be fit for purpose and cover all licence obligations and conditions. These systems and processes will be enhanced as our

network and connection numbers grow and will provide for customer and gas supplier interactions; maintenance of asset records; meter asset management; track customer relations; provide robust control of our emergency response, demand forecasting and support our financial transactions and regulatory reporting. Where appropriate, our existing world class systems (eg Maximo, Oracle ERP) will be utilised under managed service agreements to ensure we consistently meet customer and NIAUR expectations.

As an organisation we currently operate in Northern Ireland contracted to and supporting the Operations and Maintenance (O&M) of the existing High Pressure networks on behalf of Mutual Energy Ltd, BGE (UK) NI Ltd and through BGE (UK), Firmus Energy low pressure networks. Since 2006 we have had an office/depot in Antrim which is integrated to the main SGN back office systems and similar to all other UK locations it enjoys full data transfer. In particular the office provides local support for asset and work management, HR, IT, Finance and Procurement.

From a procurement perspective we have an existing tried and tested national logistics supply chain in place, which already includes Northern Ireland. It has adequate provision to extend and incorporate the requirements of the Gas to the West project, expanding delivery locations and frequencies as necessary to meet our mobilisation and ongoing needs.

Our current O&M activities are supported by existing local sub-contract labour (Select Energy Engineering (SEE) and other framework contractors) which can be extended to meet Gas to the West requirements. Additionally we have established connections and arrangements with local property managers, developers and estate agents, which will enable the establishment of a suitably located SGN office to support our Licence operation.

We provide below additional references to sections of the Low Pressure Operational Business Plan that provide support for the above statement.

Systems and apparatus references.

Chp 1 Business Plan Overview 1.2 Executive Summary

Chp 2 Organisation 2.1 Structure 2.2 Resource Levels 2.4 Deployment

Chp 3 3.1 Plans and Proposals processes 3.2 Resources 3.5 Systems (required for work and asset management processes; Arrangements for procurement) 3.6 Low Pressure design 3.7 Mobilisation support systems

Chp 4 4.3 Policies and Procedures 4.4 Inspection, Review QA and Audit 4.5 Information Systems

Chp 5 5.2 Technical policies, procedures and reference standards 5.5 System Performance monitoring, system control arrangements. 5.6 Asset Records

- 5.7 Asset Management systems
- 5.8 Emergency Response
- Chp 6 Procurement

- Chp 8 Operational Cost Forecasts
- 8.4 Cost Management
- 8.5 Efficiency Improvement Plans

(b) the human and other resources

Ownership and operation of the second largest UK distribution network allows for significant advantage when considering arrangements for securing resources and materials. We have a fully compliant procurement process that will ensure we get best value across our range of business activities and that capability will be extended to our business in NI through a managed service agreement. In addition we have existing arrangements that will be extended where appropriate to support our activities in NI.

Senior managers from our existing business, many who have worked in NI and supported the establishment of the NI gas industry since 1996, will take a lead role in establishing our business in NI. This will include the preliminary discussions with the NIAUR and key stakeholders and setting in place the recruitment process to secure high calibre individuals for the SGN NI senior management team. They will be supported (under a managed service agreement) by our existing Human Resources team to ensure the best internal and external candidates are given consideration for these important roles. The individuals selected will then be responsible for recruiting the team members to populate our proposed organisational structure and to secure the necessary contract and third party resources to deliver against our construction and connection commitments.

If required we can draw upon the existing established SGN facilities and contractors, as detailed above or expand our portfolio using the existing procurement processes.

Human and other resources references

- Chp 1 Business Plan Overview
 - 1.2 Executive Summary

- Chp 2 Organisation
 - 2.1 Structure
 - 2.2 Resources
(Organisational arrangements to secure and manage internal resources)
(recruitment arrangements)

- Chp 3 Mobilisation
 - 3.2 Resources

- Chp 6 Procurement
 - 6.2 Materials
 - 6.3 Construction, Maintenance and Specialist services

- Chp 7 Business Development
 - 7.1 Plans and processes to achieve targets for growth in demand/connections
 - 7.2 Plans to maximise the number of premises connected to the gas network
(arrangements for engagement and development of relationships with businesses etc)

(c) the financial resources and facilities,

We have demonstrated in our submission our ability to meet the financial standing criteria through our track record with financial institutions, our statutory accounts and letters of comfort from two of our relationship banks. We intend to finance the activities in line with how we currently finance our two existing Gas Transportation Networks - a combination of equity and a bank facility with our relationship banks and long term bond issuance.

SGN Group has significant financial strength demonstrated by a RAV of almost £5bn, £1bn of equity / shareholder loans from our three shareholders (SSE, Borealis and Teachers) and strong operational cashflow. We have provided a letter explaining how our statutory accounts support the financial standing criteria together with three years of historical accounts. The Group operates in a stable regulatory regime and we are in the early part of an eight year price control. This provides a stable platform to grow additional regulated businesses. In addition, our three Shareholders are committed to this bid which is in line with their strategy of owning and growing regulated businesses.

We have demonstrated a very good track record with both the credit rating agencies and our relationship banks. We have an excellent liquidity profile which has all contributed to our ability to maintain solid credit ratings since inception in 2005 (Baa1 Moodys, BBB S&P and BBB+ Fitch - senior unsecured). We have raised £3.5bn of bonds during the last eight years whilst maintaining a £280m bank facility. Through these transactions, we have built an excellent working relationship with our banking group (Lloyds, RBS, RBC and Barclays).

We have obtained two comfort letters from RBC and Barclays in relation to our bid.'

The evidence of our external bond issues can be found in the 'Creditors > 1 year' note in our statutory accounts.

We have not attached credit rating reports but these can be made available.

Documents Provided

Assets in Business: The annual report 2013 page 8 details RAV £4.78bn

Credit Rating of business is detailed on page 8 of the low pressure business plan

Ability to raise debt is demonstrated by Note 10 to Annual Report 2013, which details our history of bond issues. Ability to raise further debt to finance further debt is demonstrated by the inclusion of two bank comfort letter from RBC and Barclays.

If you have any further queries please do not hesitate to contact me.

Yours Sincerely

