

Con Feeney
Northern Ireland Electricity Networks
Fortwilliam House
Edgewater Office Park
Edgewater Road
Belfast
BT3 9JQ

7 September 2018

Dear Con

BALLYLUMFORD SWITCHBOARD PRE-CONSTRUCTION ALLOWANCE DETERMINATION

This letter sets out the Utility Regulator's decision in respect of Ballylumford Switchgear pre-construction costs under paragraph 4.34 of Annex 2 of the NIE Transmission Licence.

Our decision takes account of the communication between us and ongoing engagement on this matter including: your submission of the 9 June 2017, our minded to position set out in our letter of the 23 July 2018, your response of the 6 August 2018; and subsequent confirmation of the expenditure profile on the 31 August 2018.

We have determined an additional allowed capex amount (ACTR_{X_i}) of £619,777 (in 2015/16 price base) for this work profiled as follows:

	2017/18	2018/19
Additional allowed capex	124,000	495,777

We will publish this decision by uploading it to our website and including it in the public register required under Article 57 of the Electricity (Northern Ireland) Order 1992.

Under paragraph 4.35 of Annex 2 of the NIE Transmission Licence the Utility Regulator may make its determination subject to conditions with which the Licensee shall be required to comply, including conditions as to any monitoring, audit and reporting in relation to the trial. In respect of this determination the Licensee shall, in addition to on-going RIGs reporting, maintain records of costs in sufficient granularity to provide a report or reports of costs against the headings identified in the submission of the 9 June 2017 and shall report these costs to the Utility Regulator on request. This will provide the Utility Regulator with additional information

and experience which will help inform future decisions of this type. We intend to attach a similar condition to future determinations of additional capital allowances.

We look forward to your submission of construction costs for the project which will be subject to a separate determination by the Utility Regulator. Your submission should include a copy of the necessary project specification, agreements and instructions required under the Transmission Interface Agreement. We ask that you provide a timeline for this submission.

In regard to that future submission, you should note that under paragraph 4.35 of Annex 2 of the NIE Transmission Licence the Utility Regulator may make its determination subject to conditions with which the Licensee shall be required to comply, including the delivery date or milestones to be achieved in relation to the project (including financial consequences in respect of the amount set out in the determination). In this case we consider it may be appropriate to treat the expenditure profile proposed by the company (as expressed as a percentage of total cost) as milestones to be achieved in relation to the project. Having established a forecast expenditure the cost risk sharing mechanism would provide some benefit to the company if expenditure is delayed. If there is a material delay to the expenditure profile, we will consider whether we should re-profile the determined sum (without amending the total sum in real terms) to reflect the actual expenditure profile (in percentage terms). We are unlikely to consider a delay which reduced the NPV of expenditure by 5% or less to be material. We would also propose use the real WACC for RP6 as the discount rate to determine materiality. We are happy to discuss this approach with you in advance of any determination being made.

Should you require any further information or clarification please do not hesitate to contact me.

Yours Sincerely



Tanya Hedley

Cc Ronan McKeown
Carl Hashim (NIEN)
John Mills (UR)
Colin Walker (UR)