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08 November 2012

Dear Kevin

Additional Development Plans (ADPs) – Coleraine Quarries - Electoral Ward 95JJ17 Ringsend

Thank you for your submission of an Additional Development Plan (ADP) to connect the Northstone and Lagan quarries in the Coleraine area, and the accompanying supporting information. As detailed in your licence under Condition 3.1, you seek approval of this ADP in order that the Electoral Ward of Ringsend may become an Additional Development Area.

We have reviewed your submission and, based on your assumptions which we consider to be reasonable, we are satisfied that the proposed connections to these quarries are economic. This is on the basis that you are committed to delivering the forecast volumes as set out in your submission.

Please therefore accept this letter as formal approval of the ADP. You now have the right to develop and operate a gas conveyance network in the Electoral Ward of Ringsend.

As defined in your licence, when an Electoral Ward becomes an Additional Development Area it becomes part of the firmus Licensed Area and the Exclusive Area. However we are granting approval of the ADP on the condition that this exclusivity will be subject to adjustment in the future if we believe it would be consistent with our statutory duties to make amendments to allow other distribution companies to convey gas in the Electoral Ward. For example this may be appropriate in another geographical area of the Ward where firmus do not convey gas. For the avoidance of doubt, exclusivity is also subject to the limitations set out in condition 2.1 (a) of Schedule 3 of the firmus licence.

Cost allowances

Having reviewed the estimated cost of bringing gas to the two quarries, we will allow an additional sum of £1.2 million (January 2006 prices) for these connections. For the avoidance of doubt, this excludes the connections incentive for the quarries, which we are not allowing.

In return for this additional allowance, you are forecast to achieving an additional 350,000 therms per annum from 2013 when the Northstone quarry begins to burn, rising to 700,000 therms per annum from 2018 when the Lagan quarry begins to burn. We will use the volume figure in respect of the Northstone quarry to adjust our determined volumes during this price control period. We will also use the volumes forecast in respect of both quarries as a starting point in future price control periods.

For the avoidance of doubt the 350,000 therms in respect of the Northstone quarry will be the minimum the level of additional volumes from 2013 until the estimated year that the NPV of this connection turns positive (2026). A further 350,000 therms in respect of the Lagan quarry will be added, as a minimum, between its estimated start date (2018) and when its NPV turns positive (2030). This will apply even if actual volumes fall below these forecasts.

Implementation

It is not our intention to reopen the current price control review (PCR02) to implement these changes; rather we will make all the necessary adjustments at the time of the next price control review. We will decide at that point what date the figures should apply from based on progress on the projects.

This will require the construction of a 'retrospective mechanism' that will log-up and log-down any additional allowances owed to you from, or owed by you to, customers. The mechanism will allow us to calculate an appropriate adjustment to make to the opening value of your asset base at the forthcoming price control. This adjustment will have the equivalent effect of adding to, or subtracting from, your PCR02 allowances for new connections such as this quarry, or for capex deferrals (for example, see letter of 30 September 2011 from Paul Harland).

In accordance with licence condition 3.2.12(a)(ii) and 3.2.12(b)(ii), please ensure the Additional Development Plan named above is published on your website within one month from the date of this letter

We trust this letter is clear, but if you require any clarifications please feel free to contact the office. We look forward to continuing our work with firmus energy to ensure the economic and efficient development of the natural gas industry in Northern Ireland.

Yours sincerely

A handwritten signature in blue ink, appearing to be 'B. McHugh', written in a cursive style.

Brian McHugh
Gas Director