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Financing of regulated networks discussion paper

Moyle Interconnector welcomes the opportunity to respond to the debate on the future of network financing in Northern Ireland.

The need to invest circa £1bn in the electricity infrastructure in Northern Ireland means it is essential that the most efficient financing methods are sought.

The success of the recent OFGEM initiative in tendering the offshore transmission connections in GB, with OFGEM claiming a saving of £350m on a just short of £4bn investment, shows the benefit of innovative thinking in financing networks and in particular the benefit of tendering large discreet finance and build projects.

In Northern Ireland the concept of splitting the lower risk existing assets from the high risk activity of constructing more assets is particularly attractive.

Whilst a pure tradeable RAB, divorced from the assets and supported by cashflows guaranteed by primary legislation, would be very difficult to achieve, a model where the support is by a suitable licence structure is definitely achievable. This case has already been demonstrated by the licence structure of our own company Moyle Interconnector Ltd where a long term revenue flow underpinned by the licence allows a very high rate of gearing at very low debt rates.

In our view :

- 1) The value of the existing transmission assets RAB could be transferred to another company with a licence structure and term suitable to achieving low cost of capital. Whether asset ownership also transfers would be dependent upon the implications for the cost of capital if this were not the case. This could well be a mutual company.
- 2) This may also work for distribution but providing a sufficiently robust licence structure would be more difficult.
- 3) New build could be carried out by another utility, with a higher rate of return commensurate with the risk

The challenge of extensive electricity investment requires a serious review of how this is to be paid for. We cannot afford to ignore the benefits of our own mutual model in Northern Ireland and the work on tendered finance and build in GB.

Paddy Larkin

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