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Premier Transmission response to the financing of regulated networks discussion paper

Premier Transmission welcomes the opportunity to respond to this very useful debate on the future of network financing in Northern Ireland.

We note with interest the two models put forward by First Economics and agree that the current utility business model is currently a mixture of Operations, capital expenditure and RAB financing. The ability to split these in some way should bring considerable benefits to Northern Ireland.

We believe that a pure "traded RAB", with primary legislative support would be difficult to achieve but that a similar end result could be achieved with a supportive licence. Looking at the gas industry in particular the necessary support would be a licence with rights to recover revenue from the postalised pot, or in the future from the exit point of the transmission system.

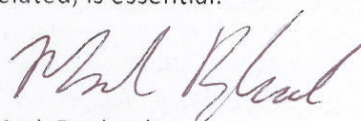
In order to maximise cost of capital benefits it should also be recognised that rather than a traded RAB independent of actual ownership of the assets, it would be better that asset ownership stayed with the RAB to enable financiers to have a security over a physical asset and so reduce financing costs.

From a practical perspective the best way to achieve a sensible split would be to :

1. Have one company own the stable asset base, with a long term licence including protection against operational cost variances and a very low rate of return commensurate with this risk profile; This company should be ring fenced from any other activities;
2. A completely separate company with responsibility for more fluctuating assets, network expansion, and customer servicing. This company should attract a higher rate of return commensurate with this risk;
3. Network operation should be controlled by the system operator as envisaged by the CAG project;

Conclusion

Northern Irelands nascent gas industry can ill-afford to be inefficiently financed. The achievement of the most efficient capital structure, in an industry where such a large proportion of the cost is capital related, is essential.


Mark Raphael

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