

Eamon Corrigan
Gas Unit
Ofreg
Brookmount Buildings
42 Fountain Street
Belfast BT1 5EE

14 October 2004

Dear Eamon

The Proposed Acquisition by PTL facilitated by Team NI Ltd

We wish to make the following comments in relation to the consultation paper. We support in principle the proposed transfer of the business to a not-for-profit 100% debt financed company in order to secure a reduction in costs for consumers. With regards to the specific issues raised in the consultation paper we would wish to comment as follows:

- We believe the benefits of the proposals to consumers outweigh the risks.
- One risk which is not identified is that of a major natural gas find on the island of Ireland which reduced the need for, or significantly reduced the utilisation of, the gas pipeline – this may become more of a consideration if a longer time frame is considered.
- Beyond 2021 the risks associated with the use of the pipeline increase. By 2025 the life of two powerstations will be nearing their end. By that time the UK will be a substantive net importer of gas and transmission costs are likely to rise. This can be combined with supply/demand issues and potentially greater price volatility and currency risk. Competitive alternative energy supplies may be emerging within the next 20 years. We would therefore suggest caution in extending the timeframe beyond 2021 as a result of these increased risks.
- Consumer's best interests will be protected by ensuring that they have sufficient and appropriate representation on the Board of the new company. We believe that it is critical that the Board includes representation of large consumers and consist of individuals with a strong background in management and operational matters – achieving low operating cost will be the key focus of the Board. Other mutual companies provide a direct service to a diverse group of customers with at times competing interests. However in this case the overall objective is to reduce the unit cost of gas transmitted (subject to appropriate safety, security and reliability requirements)
- The Appointments Board (which we assume has Ofreg input) should reflect on these requirements, recognising that the conflict risk is greatly reduced in this case. Having a Board membership which has a strong technical/commercial background with the necessary experience and ability to challenge the operations management is critical. The Board must also have the ability to adequately address both the short term and long term considerations of running the business thus ensuring the best long term benefit to

Nigel Smyth – Director
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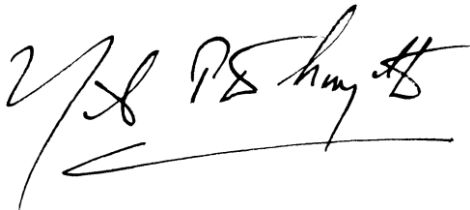
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consumers. We agree that there should be transparency in the appointments process. We also believe the Regulator should have the power to remove poorly performing Directors.

- We believe there should be a minimum difference on the membership of the Moyle and SNIP Boards. The model being proposed has not been proven over a long period on this type of business and we suggest that an element of benchmarking should apply between the two new organisations.
- We agree that performance related pay based on relevant performance targets should act as an appropriate incentive to enhance performance. However the establishment of appropriate challenging targets will require input from Directors with appropriate management experience
- As electricity consumers are expected to be the main beneficiaries of the reduction in financing costs we believe some form of Collection Agency Agreement is appropriate. However as the risks increase substantially beyond 2021 we believe the CAA should not extend beyond 2021.

Regards,

A handwritten signature in black ink, appearing to read 'Nigel PE Smyth', with a long horizontal flourish underneath.

Nigel PE Smyth
Director, CBI Northern Ireland