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Dear Linda,

Premier Transmission Limited and Belfast Gas Transmission Limited Operating Expenditure Review Consultation

Further to your recent consultation on operating expenditure as part of the price control process we would like to make the following observations.

The consultation illustrates the lack of a conceptual approach to the price control and demonstrates a lack of understanding of the businesses being reviewed.

We would expect a review to be based upon the historic trends for the particular assets in question and benchmarks against similar assets in other licence entities of similar sizes. Neither of these approaches is apparent in the price control as carried out. There is little justification for many of the reductions in costs from the proposals put forward and an inherent desire to try to micro manage the expenditure on the assets.

Looking specifically at the adjustments proposed by the regulator:

1. A number of projects have been excluded as uncertain in respect of cost estimates. These range from GTMBS upgrades, which depend upon future regulatory decisions and on EU model code decisions, to engineering costs expected to arise from EU guidelines on interoperability etc. All of these have been excluded in their entirety. This leads to the completely inefficient position of a permanent price control as each project would require an adjustment to the set allowance, a cost review and amendment process. Whilst this is justifiable in the case of very large items, such as changes to accommodate interoperability guidelines, it is inefficient micro management on other items;
2. Asset maintenance on pipeline systems is based upon standard inspection and maintenance regimes, many aspects of which are driven by legislation in the form of Gas Safety (Management) regulations, Pressure System Safety regulations and Pipeline Safety regulations amongst others. The purpose of the inspection aspects of the regime is to identify plant that requires maintenance or replacement for safety or efficiency reasons. Based upon the draft proposal it seems that the regulator assumes that the inspection is confirmatory only, as virtually no allowance is made for work arising from the inspections. This is certainly not the position of the owner of the 16 year old pipeline.



3. The cost of operations, covering system planning, network code, SCADA and control room operations has a demonstrable cost history under both British Gas and Mutual energy. In anticipation of CAG there has been a virtual development freeze for the last three years. It is incredible to expect that these costs will somehow maintain that level, easily the lowest in the last decade, whilst undergoing a complete code rewrite and associated IT changes to facilitate the changes required by the EU Second and Third packages;
4. There is no basis for the proposed reduction in administration costs, particularly as the environment is far from "steady state". By 2014 the proposal expects these costs in Premier Transmission to be c45% of the cost (in 2012 prices) incurred by British Gas 10 years previously but gives no credible rationale for such a reduction.
5. The suggestion of continual reapplications for changes to the price control before 31 August each year to reassess on a project by project basis is time consuming, costly and inefficient. In light of the fact that we may get the first determination in late August this is a particularly unhelpful way of approaching the issue of future projects with cost uncertainty.

In summary we believe this shadow price control lacks credibility in that to date there is a distinct lack of understandable reasons for the adjustments made by the regulator. In order to avoid the process being a waste of time and effort we suggest that we should discuss how a more meaningful process could be instituted for future price controls.

Yours Sincerely,



Gerard McIlroy
Director