

A Northern Ireland Company working for consumers

Financing Infrastructure Conference 2011

Peter Warry Chairman



Traditional Privatised Model

- •Reliable demand
- Established technology
- •Guaranteed (regulatory) return
- •Delivered huge savings over the years



Old model has served its time

- Efficiency improvements tailing off
- Higher gearing than forecast to generate compensating returns
- Resulting in inadequate equity base to support major new investment



Mutualisation is the new model

- No equity to pay
- Cheap debt
- Focus on operational savings



Mutual Models

- Thick Welsh Water
- Thin Mutual Energy



Welsh Water

- Same price control as E&W peers
- Undertakes own operations
- Cash buffer to guard against shocks



Mutual energy

- Skeleton strategic team
- All operations outsourced and competitively tendered
- Shadow price control
- Direct regulatory guarantee

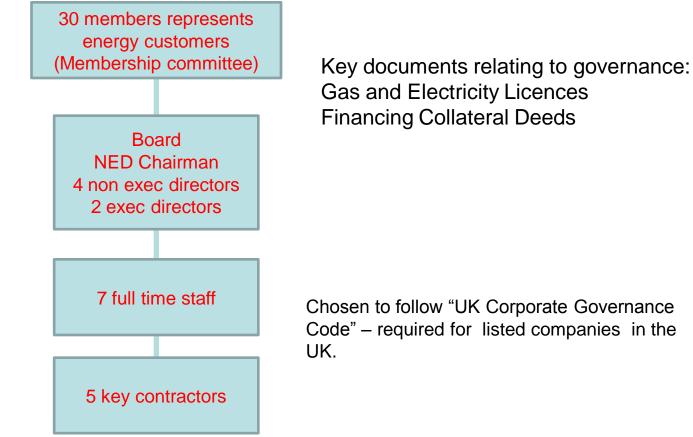


Operations

Company	Activity	Mutualised	Bond	Term	Rate
					real
Moyle Interconnector	500 megawatt DC link Scotland to NI	2003	£135m	30year	2.94%
Premier Transmission	Scotland to Northern Ireland gas pipeline	2005	£107m	25year	2.46%
Belfast Gas Transmission	Phoenix transmission gas pipeline Islandmagee to Belfast	2008	£109m	40year	2.21%



Governance Structure





Finance Structure

- •All finance raised on bond markets per asset
- •Financed for the life of the assets
- •Underlying rating A/A-
- •Monoline insurance initially brought rating to AAA
- •Bonds index linked and sculpted
- •Financiers have step in rights
- •Debt service cover and working capital also financed
- •Normal operational and financial covenants for project finance



What we have delivered

Company	Cost of capital savings (cumulative to date)	Efficiency savings (cumulative to date)
Electricity business	£20m	£4.0m
Gas businesses	£59m	£2.7m

These represent per anum savings of 27% and 43% in respect of the average applicable annual electricity and gas transmission charges. The cost of capital savings are significantly front end loaded and the rate of increase in savings will reduce over time.

Mutual vs equity

	Equity	Mutual
Generic Efficiency delivered to	Electricity: 10% reduction over 5 years	Electricity : 16% reduction over 4 years to 2009/10;
customers	Gas: 1% efficiency p.a	Gas: 12% reduction over 4 years to 2009/10
WACC cost to customer	Electricity Transmission : 4.49% Gas Distribution : 7.5%	Electricity : 3.19%* Gas (average): 2.40%*
Board pay	£1.7m	£0.7m
Regulatory Guarantee		
Flexibility		

Dual Monopole

PCOVLTON -98 MW



Where next?

- More gas/electricity transmission in NI
- Or cross border assets provided no detriment to NI consumers
- Or new assets eg gas to the west
- Or transmission and distribution with partner



What's needed?

- Seedcorn for investigation
- Responsive regulator
- Hard work