

Scotia Gas Networks NI Ltd,  
St Lawrence House,  
Station Approach,  
Horley, RH6 9HJ

Graham Craig,  
Gas Branch  
Utility Regulator  
Queens House  
14 Queens Street  
Belfast BT1 6ER

07 October 2014

Dear Graham,

**Gas to the West Licence Application: Consultation Response**

On the 12<sup>th</sup> August 2014 the Utility Regulator issued a consultation on its provisional decisions relating to the Gas to the West license Applications. SGN are pleased to respond to the paper in support of the application process.

SGN submitted a linked bid with Northern Ireland Energy Holdings who will also respond separately.

We have reviewed the paper chapter by chapter and have focused our responses on any statements where we believe a response will add value to the overall process.

At this stage we do not believe any of our comments will need to be redacted and are happy for the Utility Regulator to publish.

**Chapter 1-2**

These chapters reflect the process and development of both the project and the assessment criteria and we accept that these are a fair reflection of the information provided in the tender process.

**Chapter 3 BGE (connected)**

We concur with the UR conclusion that a consistent WACC over the life of the project does not reflect CAPM methodology.

#### **Chapter 4 BGE (unconnected)**

Our comments are similar to chapter 3.

#### **Chapter 5 NIEH**

On the issue of comfort letter discussed in 5.6.30, we understand the regulators comments concerning lack of firm commitment from banks but note that this reflects the status of applicants within the process. External financiers rarely offer firm commitments before license award and closure on all corporate and regulatory matters, as it is only at this stage they can understand the business and risk profile.

#### **Chapter 6 PNG High Pressure Bid**

We agree it was inappropriate in 6.6.43 for PNG to assume that Mutual Energy would acquire the transmission build without any prior agreement and at a cost of capital below that which Mutual Energy itself had bid.

Also we concur with the UR that except in the case where the transmission asset was sold to a third party such as Mutual Energy, the ability to operate a new mutual entity within a profit making group may create problems of business separation.

We additionally support the regulator's assertion that the demonstration of current capability in both the operation and construction of High Pressure Networks is key to the success of the project.

#### **Chapter 7 & 8 Firmus Low Pressure Bid**

Beyond the general comments on comfort letters made elsewhere we have no further comments.

#### **Chapter 9 PNG Low Pressure Bid**

Beyond the general comments on comfort letters made elsewhere we have no further comments.

#### **Chapter 10 Scotia Gas Networks Low Pressure bid**

SGN recognise that as a potential new entrant to the Northern Ireland Distribution market we have not been able to engage with stakeholders as comprehensively or as efficiently as incumbent companies. During our period of preferred bidder we are now addressing this.

#### **Chapter 11 Best Value Criterion**

As stated on our review of the Phoenix high pressure bid, the scoring mechanism gives credit to a cost of capital that depends on PNGL being able to sell the constructed asset to our partner Mutual Energy (NIEH) utilising a WACC at a lower rate than Mutual Energy believes it can achieve. We believe the deduction of 37.5 marks for NIEH is misaligned with the fact the PNGL bid was set aside.

Overall we believe that regulator has demonstrated a systematic and reasoned approach to evaluating the bids. We welcome the opportunity to work as preferred bidder and developing a strong working relationship with NIAUR.

Yours sincerely,



Robert Wilby  
Head of Business Development

| T: 01293 818326 | M: 07802 758233