

**Brian McHugh**  
UREGNI  
Queens House  
14 Queen Street  
Belfast  
BT1 6ED

27 June 2014

**Ref: Gas to the West**

Dear Brian,

This letter is a response to the request made by UREGNI, as per the attached email, where SIB was asked to:

- 1. Provide a view on the funders letters of comfort received by UREGNI from the Applicants to the 'Gas to the West' competition.*
- 2. Provide a view on the Applicant's cost of capital.*

I have reviewed the letters of comfort sent through by UREGNI. I have also reviewed the applicant information pack and published criteria referenced in your request.

**1. Letters of Comfort**

It is my view that the letters of comfort certainly indicate willingness from the funders concerned to participate in the project. However, I do not believe that the letters can be relied upon as evidence to demonstrate whether or not an Applicant has the financial resources or financial standing to meet the obligations of the licence for which it has applied and has, or can obtain, access to financial resources at least equal to 120% of the amount specified by the Utility Regulator.

This opinion is based on my observations that:

- The letters do not reference any due diligence undertaken by funders to satisfy themselves that the assumptions in the operating model are accepted by them and valid
- The letters do not reference any final Credit Committee approval having been granted
- The letters do not have completed term sheets attached

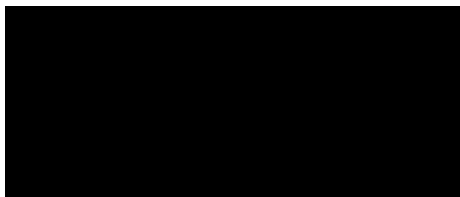
---

**2. Applicants cost of capital**

Unfortunately I am unable to provide a view on the Applicants' costs of capital in the available timescale.

Should you need any further assistance please don't hesitate to contact me.

Yours sincerely,



Finance Adviser

---

**From:** [REDACTED]  
**Sent:** 17 June 2014 15:49  
**To:** [REDACTED]  
**Cc:** [REDACTED]  
**Subject:** Utility Regulator Gas to West Advice Sought (email 1 of 2)

Dear [REDACTED]

As discussed with Brian and Jenny yesterday, I understand you are content to provide a view on the comfort letters. Please find attached the information required. (I will send the document in two emails due to the size of the attachments)

I also attach a copy of the criteria and you should refer to Criterion 3.17b, 2.8, 3.9 and 3.10 against which the Committee must judge each applicants cost of capital requirement. In submitting their requirement applicants have provided as evidence the attached letters of comfort in support of their cost of capital applications. The Committee wishes to seek your professional view as to the value of these letters as a piece of evidence.

The second question we are working on relates to the applicants cost of capital. We understand that responding on this matter may be more difficult in the timelines however we are currently preparing the applicants cost of capital submissions for you and will send them onto you when they are ready. Should you wish to do respond to the applicants cost of capital, in order for the Committee to take account of your view then it must be submitted in accordance of the following:

Your starting point should be Criterion 3.17b against which the Committee must score the Financial Costs (Chapter 10) of each applicants Operational Business Plan. The advice the Committee will require is

- An outline of the submission you would expect to see in response to this Criterion including for instance the types of evidence you would have expected to have seen presented in support of the rate of return requested by the applicant.
- An assessment of each applicants submission against this model response highlighting where expected evidential sources is missing or where the quality of evidence is less than what might have been expected. To assist you in this assessment I would point you in the direction of paragraph 4.38 of the Applicant Information Pack.

It is recognised that in order to be in a position to judge the level of evidence that would be required to judge any particular assumption on which the submission is made it will be necessary to establish what would be considered central assumptions and what might be considered as assumptions on the boundary of credibility, the latter group requiring more evidential back up than the former. You might

---

therefore wish to include in an Annex data on what you consider as being the reasonable range of possible values for the various components of the cost of capital metric and the impact of various plausible assumptions on these data.

However we do not require you to make any judgements as to the credibility of the various WACC submissions directly, I understand that this approach may seem rather unusual to you but the Committee must be governed by the appropriate application of the Published Criteria. You must confine yourself to assessing each application on the basis of the evidence provided. Ultimately, we are asking whether any applicant has demonstrated that it can finance the licenced activity at the rate it has proposed.

I trust that this sets out clearly for you the advice that is required. Of course we are always willing to clarify any issues you might still have, please feel free to contact Brian McHugh on his mobile [REDACTED], [REDACTED] or myself on the number below.

I am copying this correspondence to our principal legal advisor [REDACTED] at [REDACTED]

Kind Regards

[REDACTED]

[http://www.detini.gov.uk/gas\\_published\\_criteria.?rev=0](http://www.detini.gov.uk/gas_published_criteria.?rev=0)

[http://www.uregni.gov.uk/uploads/publications/Gas\\_to\\_the\\_West\\_Applicant\\_Information\\_Pack.pdf](http://www.uregni.gov.uk/uploads/publications/Gas_to_the_West_Applicant_Information_Pack.pdf)