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17 February 2017

Cost of capital for West Transmission Limited

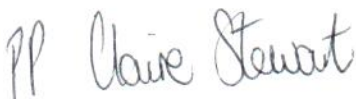
Further to your consultation on the GT 17 price control, we are obliged to respond on one fundamental point which is unclear in the consultation. As part of the bid for gas to the west we proposed that we would receive the actual cost of capital achieved in the market as a pass through, and stated *"the actual pass through financing cost will reflect the actual (whether higher or lower) financing costs incurred"*. At the time, we forecast this as 1.98%. When we agreed the initial licence in February 2015, in practice there was likely to be a gap between the initial commissioning of the network and the long-term financing. This was addressed by setting the rate of return at 1.98% (with the caveat *"or other such value as may be determined by the authority in the light of material changes in the financial market conditions from April 2014"*), and introducing a clause to allow the implementation of our proposal for a long term 100% debt financing that would be fixed for more than one return period.

The consultation does not make it clear that the 0.3% is simply an up to date forecast of the cost post the intended mutualisation date. From the drafting, it could be construed that it is proposed to change the cost of capital to 0.3% before that date. This is clearly incorrect as such a decision would:

- Be completely inconsistent with our bid for the licence, which was clearly and explicitly based upon 100% debt financing on a PTL type licence. To apply such a methodology to our current licence makes no sense and is at odds with any normal approach;
- Contradict NIAUR's own analysis, used as part of the gas to the west bid process, which explicitly decided the difference between the licence type held by GNI and our current licence was 22bps;
- Be inconsistent with treatment of other items calculated in a formulaic way in the gas to the west submission which NIAUR has determined are fixed at the number submitted;
- Effectively amount to a decision that the current licence efficient gearing rate is 100%
- Be based upon a single point in time interpretation of market conditions to a random date in September 2016;

We would ask that the final decision paper make the point clear that no change in the licence is intended until the long-term financing, consistent with the position in our bid. A number of parties, including the short-term financiers, are proceeding on the basis that there is an intention to replace the current licence with a PTL type licence as soon as is practical and that the bid terms apply until that date, and making this clear would be most helpful.

Yours faithfully



Gerard McIlroy
Director West Transmission Ltd

