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By email

Decision on repair of Moyle Interconnector cables

Dear Jenny

Background

1. In Spring 2013 and in response to a number of serious cable faults on the Moyle interconnector, the regulatory authority, via a published exchange of letters, supported our proposed long term solution to lay new low voltage submarine cables along a similar route to augment the existing cables and replace the existing return conductors.
2. We are now in a position to award a contract to repair the Moyle Interconnector by installing replacement low voltage cables. The purpose of the replacement cable project is to reinstate the Moyle cables' long term reliability and provide an associated 250 megawatts of increased capacity thereby enhancing security of supply and reinstating the benefits to consumers of increased trade with the GB electricity market.

Technical Proposal

3. The replacement cables will be manufactured and installed by Nexans, the original equipment manufacturer, and one of the world's leading manufacturers of high-voltage submarine cables. The replacement low voltage cables are of proven design and have a long track record in other installations. We are satisfied that Nexans' proposal is technically robust and will provide functioning cables using well proven technology. This is of critical importance because for the remainder of its life the whole of the installation including the new cables will form the Moyle Interconnector and will be relied upon to perform appropriately.

4. Nexans plans to restore full capacity to the Moyle Interconnector by 2016 which is earlier than we had expected, and should bring early benefits to electricity consumers. The early delivery is particularly welcome in the context of Moyle's recent decision to discontinue work on the interim seabed repair. Despite the development of a very successful seabed repair technique, the particular nature of the Moyle cable in the vicinity of the current fault meant that type of repair was not feasible.
5. Of course with a project of this scale there is always a credible risk of delay, suspension or in the extreme termination, for example due to parallel consenting delays or construction problems, and if there are delays, project completion would likely slip.

Customer Impact

6. We have separately informed you of the exact price of the contract and that it is confidential between the parties. However the bid price is significantly less than the previously notified estimate of £60 million. Although again it should be noted that with a project of this scale there is still a risk that the costs could increase due to unexpected events.
7. In order to minimise the impact on consumer bills, we plan to meet the majority of the cost of the project through the use of company reserves and capacity auction revenues. However, to cover the balance, we expect a CAIRt call (use of system charge for Moyle) for the 2015-16 tariff year of around £24 million which is in line with the current 2014-15 figure. There is still an element of uncertainty in the expected CAIRt call amount and it will be finally set in June 2015.
8. The restored interconnector capacity will enhance security of supply and increase trading of electricity with the GB electricity market which will reduce the wholesale price of electricity in the all Island electricity market. We asked independent consultants Energy-Link Partnership Limited and SONI the system operator for Northern Ireland to respectively assess the retrospective value and forecast value to consumers of restoring the Moyle capacity. We have provided their reports to you for your information.
9. The Energy-Link study looked at the effect on consumer costs of removing Moyle from the historic market schedule. The results showed that Moyle's current 250MW capacity was worth c.£40m per annum on average to NI consumers in terms of reduced System Marginal Prices in the wholesale electricity market.¹ Moyle operated at its full 500MW capacity since December 2001 and until the first cable fault in September 2010 and at around half capacity since 2012. Consequently it is clear that over that period NI consumers have benefited hugely from the Moyle interconnector.
10. The SONI study used a similar method to assess the forecast value of restoring Moyle to full capacity. This study estimated that the additional Moyle capacity would bring extra

¹ Period examined was August 2012 to July 2014.

NI consumer benefits as a result of lower NI wholesale prices of around £16m per annum². This figure is different to the Energy Link figure for a number of reasons. As the SONI figure is a forecast it is less certain and more dependent on assumptions than the Energy Link figure, which uses historic market conditions. We consider the SONI figure to be conservative as it only considers an incremental 200MW capacity for Moyle rather than the full 250MW capability³. In addition neither figure includes additional security of supply benefits or the recycling of all island benefits to NI consumers⁴.

11. Considering the expected benefits for consumers and the cost of the project, the case to proceed is overwhelming and compelling with a payback period of around three years.
12. The Moyle interconnector has a life expectancy of at least another 15 years and based on the studies NI consumers might expect a benefit of around £240m over that period purely from reinstating the incremental capacity of the interconnector. This is in addition to the benefits accruing from the underlying 250MW of capacity currently available on Moyle.
13. As mentioned previously even though all of the costs of the project can be funded from the proceeds of the “Eligible Pass Through Costs” component of the CAIRt charge, much of the cost of the project will actually be funded from Moyle Interconnector Ltd’s existing reserves, so consumers will not see the full cost of the project in their future bills. Moyle is a company limited by guarantee with no shareholders and no dividends and while it holds an explicit “cost pass-through” licence, customers get the benefit of significantly lower long term overall operating costs including much lower cost of capital. Consistent with Moyle’s approach to date, any surplus reserves which the company has previously accrued can be used to offset the cost of the replacement cables project in order to maintain the CAIRt call for 2015/16 at current levels.

Regulatory support

14. We are convinced that carrying out the Moyle cables replacement project is in compliance with our licence requirements and in the best interests of consumers and therefore have no hesitation in recommending that we progress the replacement of the cables without delay.
15. However the Moyle board of directors is also very keen to ensure that we are aligned with the wishes of the regulatory authority and that we have the authority's support. In addition our existing financiers understandably seek assurance that there is no misalignment.

² This study used 2020 as a typical ‘snapshot’ as there are quality modelling datasets available for this year.

³ Due to current system restrictions the final 50MW of technical capacity on Moyle is only available to be used by SONI rather than individual electricity suppliers.

⁴ We have only referred to direct NI consumer benefits here but the value to the all-island market is approximately 4 times this. A portion of this all island benefit will be captured in Moyle capacity auctions to provide further benefits to the NI consumer.

16. Consequently we want to ensure that our plans and decisions are fully transparent and open to regulatory scrutiny and challenge and ultimately that the regulatory authority is supportive of our proposal to enter into a contract with Nexans to deliver the Moyle replacement cables project.

Please do not hesitate to contact me if you have any further queries on these matters and we look forward to your considered views.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Paddy Larkin', written in a cursive style.

Paddy Larkin
Director