

## **BGE Response to NIAER Consultation Paper on the Proposed acquisition of PTL Ltd by TNIRL**

BGE (UK) Ltd. welcomes the opportunity to provide some comments on the consultation paper.

BGE (UK) Ltd. wish to acknowledge that NIAER have kept us briefed on the general progress made to date in developing this proposal.

In overall terms ,whilst not being privy to details of the transaction, BGE (UK) Ltd note that NIAER are projecting savings in overall costs to gas customers using the gas Transmission networks of the order of £2.5m-£5m/annum. Savings of this scale are significant and BGE (UK) Ltd therefore support the efforts of NIAER in developing any such proposals which may reasonably be expected to give rise to savings.

BGE (UK) Ltd (“BGE”) would wish to comment on a number of aspects of the specific proposals as follows:

### Transaction Structure:

Whilst the proposed structure as outlined in the paper provides an opportunity to capture savings for customers, via a trade off of less regulatory risk in the license terms for lower cost of capital, BGE wonder if other forms of structure have been considered e.g. structure where one of the existing operators would be the vehicle that TNIRL would use to put this into effect rather than setting up new operating entities with staff etc. It is possible that such an arrangement if it could be agreed may be a less costly structure and savings in the significant level of fees projected could be achieved as well as maintaining some incentives to control operating costs.

### All Island Market:

NIAER are very supportive of the development of an All Island Gas Market (in the context of an All Island Energy Market). It is important that the detail components of any structure as envisaged in the paper are constructed such as to minimize any future complications in the context of future implementation of All Island Arrangements. In particular with regard to the option outlined in the paper involving bringing together the two interconnectors (gas and electricity) under a single holding company BGE believe having an entity with significant gas and electricity interests could be a complication in working out what is best for the single gas market. We believe that separate governance of Moyle and Snip will facilitate NIAER in reaching the correct balance between the interests of gas and electricity-which although closely linked may diverge on occasions-.

### Operating Cost Efficiencies:

BGE accept that some operating cost efficiencies will result from the proposal outlined in the consultation paper. However BGE believe that further operating cost efficiencies would be achievable if the operation of the SNIP was undertaken by an existing Gas Transmission license holder operating other pipelines on the system.

### Position of new license holder v other Transmission Operators on the Network:

BGE accept that the more favorable regulatory conditions in respect of the CAA and a proposed license condition allowing pass through of all costs “ even upon the occurrence of an adverse regulatory event “ are the quid pro quo for a lower cost of capital. BGE also agree that passing through this risk to the major user i.e. the Electricity consumers is the most appropriate approach.

BGE would be concerned if there were to be any change in this proposal such that other Transmission Operators were being asked to take any residual risk under the postalisation arrangements thereby being subordinated in their rights to revenues from the postalised pot compared to those of the new PTL. What assurances do you propose to offer the other Gas Transmission license holders in this regard?

How Surpluses may be used:

Your consultation paper envisages that surpluses generated from CLG's operations are used solely for reinvestment in the business or reducing charges for consumers. BGE are interested to know what mechanisms you envisage may be used for these 2 options.

Extending the finance over a longer period:

BGE believe there is nothing wrong with extending the period of financing beyond that currently in place given that the life of the assets will exceed the financing period. There will however be a tradeoff in terms of the cost of debt, which needs to be considered, and very long periods particularly in structures with very high gearing could be sub optimal.

Appointment of Members and Board Directors:

There is a useful and thorough discussion of issues in relation to appointment of Members and Board Directors in the paper. It is important to get the correct balance of stakeholders interests. With a wide cross section of interests it is important as well that the Board governance structures are set up such that it can work and take decisions effectively on significant issues of policy which may arise from time to time such as potentially agreeing new arrangements to facilitate an All Island Market .