



PAC-R-1372 Correspondence 3A.2
Meeting 125 08/05/2014

30 April 2014

Ms. Niamh Maguire,
Committee Secretariat,
Committee of Public Accounts,
Leinster House,
Dublin 2



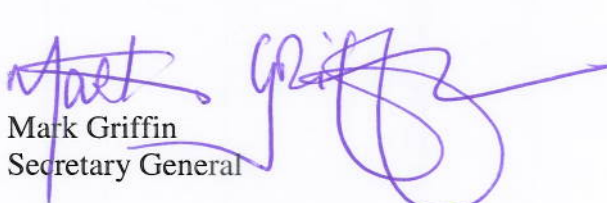
Request for Information Note on Sale of Bord Gáis Energy

Dear Ms. Maguire,

I refer to your letter of 16 April on the above-mentioned matter and enclose an information note as requested.

As the note emphasises, the sale process for the Bord Gáis Energy business is ongoing and is expected to close by the end of June. It is important in the interim to avoid releasing commercially sensitive information and to protect the integrity of the sale process and the ongoing negotiations. Therefore, while some information on the sale is in the public domain, the Department must continue to treat all aspects of the sale process as commercially sensitive and we would very much appreciate the PAC's understanding in this matter. A further information note can be provided, if needed, once the sale has completed.

Yours sincerely,


Mark Griffin
Secretary General

Note for PAC on Bord Gáis Energy sale

Sale of Bord Gáis Energy

It is important to note that the sale process has not yet completed. A Share Purchase Agreement was signed by BGE and the buyer consortium in March. The sale, which is subject to various conditions to closing including regulatory and merger approvals, is expected to close by the end of June. A further information note can be provided, if needed, once the sale has completed. It is important in the interim to avoid releasing commercially sensitive information and to protect the integrity of the sale process and the ongoing negotiations.

Background

Bord Gáis Éireann (BGE) is a commercial State company, established under the Gas Act 1976. Its core functions are to operate, maintain and develop the gas transmission and distribution system, which is strategically important for energy security and competitiveness. Through the 1990s, it developed its gas supply business, primarily by absorbing some of the old "Town Gas" companies. As competition was introduced in the gas market, BGE sought new electricity market opportunities under its Bord Gáis Energy brand. This business was developed from about 2005 onwards, including through the launch of the "Big Switch" campaign to attract electricity customers, the development of its own gas-fired generation station and the acquisition and development of a wind farm portfolio.

Notwithstanding the growth of the Bord Gáis Energy business, the gas networks business remains the most significant contributor to group earnings. In 2012, the networks business contributed €300m to earnings as compared to €79m from the Energy business.

In 2012, the Government decided to sell the Bord Gáis Energy business as part of the State assets disposal process. The Government decided to sell the Bord Gáis Energy business in its entirety in order to maximise Exchequer receipts and also to comply with EU rules for separation of competitive energy businesses from the strategic gas networks. The sale will retain the strategic gas network in public ownership while securing value for the Exchequer from the competitive generation and supply part of the business.

Sale Process

A Government Steering Group was established to oversee the sale, comprising officials of the Departments of Communications, Energy and Natural Resources, Public Expenditure and

Reform and Finance and from the NewERA unit of the NTMA. The sale process was launched in May 2013.

BGE conducted a competitive auction process in an open and transparent manner in which numerous international strategic and financial sponsor parties were invited to submit bids. The bids received are reflective of market prices available today.

The shareholding Ministers have taken a firm stance to ensure that the sale process maximised the return for the State. This commitment was underscored when the Ministers announced on 27 November 2013 that bids received at that date were not acceptable. Following this statement, revised bids were received which secured an increased value for Bord Gáis Energy. After several rounds of bidding and negotiation, a preferred bidder was appointed on 12 December 2013. Following detailed negotiations between BGE and the buyer, BGE announced on 25 March 2014 that it had signed a definitive agreement to sell Bord Gáis Energy to a consortium comprising Brookfield, Centrica and iCon for an enterprise value of up to €1.1 billion. The buyer consortium is to purchase the energy business as follows:

- Brookfield to buy the wind generation business including significant operating windfarms and the wind development portfolio;
- Centrica to buy the Irish electricity and gas supply business along with the gas generator at Whitegate; and
- iCon to buy the “Firmus” Northern Ireland energy supply and distribution business.

It should be noted that BGE is selling the business under a single sale agreement. The commercial arrangements between the three consortium members are a matter for those parties.

The sale, which is subject to various conditions to closing including regulatory and merger approvals, is expected to close by the end of June.

In agreeing to BGE entering into a definitive agreement to sell Bord Gáis Energy, the Ministerial shareholders took account of the fact that the consortium made the highest bid and also of professional advice that this bid, with an enterprise value of up to €1.1 billion, represents fair value for the Bord Gáis Energy business. Under EU rules on the sale of State assets, the core principle is that the State must accept the highest bid for the business.

The sale proceeds will provide additional funding to Government to enable further investment in infrastructure and jobs.