

MINUTES OF A MEETING OF THE NORTHERN IRELAND AUTHORITY FOR UTILITY REGULATION (THE 'AUTHORITY') HELD ON THURSDAY, 11 FEBRUARY 2016 IN QUEENS HOUSE, BELFAST AT 10.30 A.M.

Present:

Bill Emery (Chairman), Bill Cargo, Teresa Perchard, Jon Carlton, Alex Wiseman, Richard Rodgers, Jenny Pyper (Chief Executive)

In attendance:

SMT – Kevin Shiels, Brian McHugh, Tanya Hedley, Jo Aston, Donald Henry, Greg Irwin

Elaine Cassidy (all items), John Mills, Caspar Swales and Alan Craig (for item 4), Sarah Brady (for item 5), Jean-Pierre Miura (for item 7)

1. APOLOGIES FOR ABSENCE

1.1 None

2. FIRE DRILL

2.1 The board members were informed of the evacuation procedures which apply at Queens House in the event of a fire.

3. DECLARATIONS OF INTEREST

3.1 Richard Rodgers and Donald Henry, as members of the EnergyWise project board, indicated that they would recuse themselves from the discussion on the EnergyWise agenda item.

4. GD17 DRAFT DETERMINATION

4.1 Brian McHugh introduced this paper which sought the board's approval for the main recommendations that would form the basis of the draft gas distribution price control determination (GD17). His presentation provided an update on developments since the board's last discussion on key aspects of the price control.

4.2 Board members discussed the analysis relating to financeability. Specifically, board members commented on the gearing assumptions and the impact on the companies' financeability over the price control period. The board endorsed the undertaking of further work on financeability, in discussion with the gas distribution companies.

4.3 An extended discussion on the rate of return also took place. This included the consideration of the inflation metric chosen and the impact on the rate of return. Clarification on several items which contributed to the rate of return, such as the calculation of the asset beta, was provided. The impact on consumers of the rate of return calculation was also discussed. Comparisons with other regulatory decisions on asset beta and rate of return were also considered. Having considered the analysis provided and discussed at length key issues the board agreed that no emphasis should

be put on the operational gearing issue and the pre-tax rate of return to be included in the draft determination should be 4.3% for both GDNs.

- 4.4 The board discussion on Opex expenditure focused on the extent to which there might be scope for efficiencies in areas such as marketing and the level of incentives in respect of connections. The board agreed to the proposals as presented.
- 4.5 The main element of the board's consideration of capex expenditure was relative difference in unit rates between one company and the rest. The board was also separately briefed on ongoing discussions with SGN regarding cost allowances for Gas to the West. There was endorsement for the position that significant weight should be placed on the figures contained in the SGN licence application.
- 4.6 In agreeing the delegation of the drafting of the draft determination to the Executive team, the board discussed the next steps in the price control process. It was agreed that ongoing engagement with the gas distribution companies was paramount and that a further update on GD17 should be provided at the next board meeting – before the publication of the draft determination. The need to also consider engagement with other stakeholders on GD17 was also agreed.

5. ENERGYWISE ENERGY EFFICIENCY SCHEME

- 5.1 Kevin Shiels introduced this item which sought the board's approval on next steps on the new energy efficiency scheme, called EnergyWise. Sarah Brady provided some background in respect of the plans for developing EnergyWise, main risks and costs.
- 5.2 Board members discussed the options of carrying out a consultation on EnergyWise and it was agreed that such a consultation should be undertaken in conjunction with the Department for Enterprise, Trade and Investment (DETI). The eligibility of business customers for EnergyWise was also clarified. Arrangements for the administration and collection of monies for the scheme were also discussed and clarified.
- 5.3 With all queries addressed, the board approved the proposals for next steps on EnergyWise in respect of discussions with DETI and consultation approach. It was also noted that the Executive team would report back, as required, on any proposed licence modification.

6. GNI (UK) CERTIFICATION LICENCE MODIFICATIONS

- 6.1 Tanya Hedley introduced this item, which sought the board's approval for changes to the GNI (UK) licence to ensure compliance with the EU directives on certification of gas transmission operators. She briefed the board on the background to the proposed modifications.
- 6.2 The board approved the licence modifications as presented. Giving timing constraints, the board also approved the delegation of authority to the Chief Executive to approve the certification of GNI (UK) as a fully ownership unbundled entity under EU directives on gas certification.

7. I-SEM MARKET POWER PRESENTATION

- 7.1 Jo Aston and Jean-Pierre Miura provided a presentation to the board on the market power workstream in respect of I-SEM.
- 7.2 The presentation covered the following items: background to the workstream and governance arrangements, the approach to policy development, key challenges, key issues arising from the consultation on market power and next steps.
- 7.3 Board members discussed the profile of the market and the options for market power mitigation. The challenges to addressing potentially contentious issues, given the cross-jurisdictional nature of the I-SEM, were also noted. Board members were provided with further information on the development of an expert advisory group.
- 7.4 In noting the update, there was agreement that it was important that the board continued to be briefed on key I-SEM issues.

8. REGULATED TARIFF REVIEWS

- 8.1 Kevin Shiels provided a verbal update to the board on the regulated electricity and gas tariff reviews and addressed board member queries on relative prices with other suppliers.
- 8.2 The board noted the update and welcomed the price reduction for consumers. It was agreed that the board would be sent the press releases in respect of the tariff announcements.

9. MINUTES

- 9.1 The minutes of the board meeting on 17 December 2015 were agreed for publication.

10. ACTION POINTS

- 10.1 The action points were reviewed by the board. All actions were complete.

11. ISEM UPDATE

- 11.1 Jo Aston provided a verbal update on overall progress in respect of the I-SEM. In particular, she briefed the board on arrangements for enhancing project management for the I-SEM.
- 11.2 The board noted the update.

12. REPORT FROM THE EXECUTIVE TEAM

- 12.1 Jenny Pyper provided an overview of the Executive team report. She emphasised the continuing work pressures associated with advancing the I-SEM project.
- 12.2 An update on the Minister's Energy Manufacturing Advisory Group was also provided.
- 12.3 A board member query in respect of the difference between the cost benefit analysis for Smart Meters between Great Britain and Northern Ireland was clarified.

- 12.4 The board was also briefed on the Energy Bill being progressed in the Republic of Ireland. This included potential changes to the name of the regulator and associated additional powers and strategic direction.
- 12.5 Bill Emery informed the board that an Enforcement Sub-Committee was currently considering one matter.
- 12.6 There was agreement that, following the publication of the GD17 draft determination, arrangements should be advanced for board-level discussions with the gas distribution companies.
- 12.7 The board endorsed the nomination of Jon Carlton to the SEM Committee.
- 12.8 The board approved the finance and performance summary, noted the I-SEM related variances and the assessment of progress against FWP targets. Proposed changes to the corporate risk register were also assessed and approved. It was noted that the 2016-2017 budget had been considered by the Audit Committee at its meeting the previous day and that the board would be asked to consider this item at its March meeting.
- 13. Any other business**
- 13.1 An update on the publication of the SONI price control determination was provided.
- 13.2 There was agreement that board meetings would be convened to commence at 11am with a later finishing time and this change would be communicated to board members and staff.

There being no other business, the meeting concluded at 2.20pm.