

Northern Ireland Electricity plc

**Northern Ireland Energy Holdings
Corporate Governance Review**

Utility Regulator's Consultation Paper

NIE's Response

17 April 2009.



Northern Ireland Electricity plc (NIE) welcomes this opportunity to respond to the Utility Regulator's consultation paper on its review of the Corporate Governance arrangements within Northern Ireland Energy Holdings, a company limited by guarantee.

In our responses to previous consultations relating to the mutualisation of strategic energy infrastructure assets in Northern Ireland, we noted that the mutual model gives rise to concerns over public interest issues which include (i) the extent to which risk is transferred to customers, (ii) the impact on incentives for efficiency and (iii) the robustness of corporate governance and accountability.

We note that the Utility Regulator has concluded that the review by Ernst & Young has provided NIAUR with confidence that the corporate governance and remuneration structure in place within NIEH is operating adequately and is robust and fit for purpose for a company of NIEH's size and complexity.

However, the consultation paper notes that while there is no reason to doubt the effective performance of the NIEH members both individually and collectively, the only measure of their performance is their attendance at meetings and NIEH's assessment of them when the time comes for their re-appointment. NIE considers that the fundamental flaw in the mutual model for utility assets is the absence of any real economic interest by the members in the performance of the company. Without this there is no real guarantee that the structures will work in a rigorous and effective manner as there is no financial consequence for the members in the event that they fail in the role of supervision and calling management to account. In stark contrast, in the equity model, shareholders lose value in their investment if the company does not perform.

One further comment we wish to make arises out of NIE's previous role in collecting any shortfall in Moyle Interconnector Limited's (Moyle) revenue requirements through transmission use of system charges (for which SONI is now responsible) – as a result of which we have maintained an interest in how surplus funds within Moyle are returned to customers. One area that does not appear to have been addressed by the review is the governance arrangements relating to the investment by NIEH in the European Renewable Energy Fund to which €15m has been committed following the capital rebate received by Moyle as a result of the introduction of the BETTA trading arrangements in GB.