

**MINUTES OF A MEETING OF THE NORTHERN IRELAND AUTHORITY FOR UTILITY REGULATION (THE 'AUTHORITY') HELD ON THURSDAY 22 OCTOBER 2015 IN NEWCASTLE AT 9.15 A.M.**

**Present:**

Bill Emery (Chairman), Bill Cargo, Richard Rodgers, Jenny Pyper (Chief Executive)

**In attendance:**

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

Michael Campbell (for agenda items 7 and 8)

**1 APOLOGIES FOR ABSENCE**

1.1 Teresa Perchard.

**2 FIRE DRILL**

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

**3 DECLARATIONS OF INTEREST**

3.1 None.

**4 RP6 BUSINESS CASE**

4.1 Brian McHugh introduced this item which sought the board's approval for a business case in respect of proposed expenditure for the next price control for NIE Networks.

4.2 Board members clarified the extent of the proposed expenditure. Queries in respect of the procurement process and value for money considerations were addressed. The potential for utilising the UK Regulators' Network was also discussed.

4.3 With all of the queries addressed, the board approved the business case as presented.

**5 MODIFY THE FIRMUS ENERGY CONVEYANCE LICENCE**

5.1 Brian McHugh also introduced this item which sought the board's approval for a modification to the firmus conveyance licence which would enable a pipeline to run through part of the firmus area to connect Strabane. He briefed the board on the rationale for the modification, engagement with firmus and risks associated with the proposal.

5.2 The main issues raised by the board were in respect of clarifying the route of the pipeline and the impact of the proposed licence modification.

5.3 The consultation on the proposed licence modification and engagement with firmus was also discussed.

- 5.4 The board approved the licence modification proposal subject to consideration of the consultation responses.

## **6 SONI SEMO LICENCE MODIFICATIONS**

- 6.1 Jo Aston briefed the board on this item which sought the board's approval for a consultation paper in respect of proposed modifications to the SONI SEMO licence. The licence currently has no reference to enable the application of the SEMO price control determination. Her briefing focused on the context and rationale for the proposed licence modifications.

- 6.2 The board approved the publication of the consultation paper as presented.

## **7 REVIEW OF EFFECTIVENESS OF COMPETITION**

- 7.1 Kevin Shiels introduced this discussion item regarding the review of the effectiveness of retail energy market competition in Northern Ireland. A presentation provided context, identified the scope and objectives of the review, drew the board's attention to legal advice on market arrangements and referenced the ongoing review of the retail energy market in Great Britain.
- 7.2 An extended discussion ensued. Several board members initially made reference to the retail energy market review in Great Britain and the relevance to review being undertaken in Northern Ireland.
- 7.3 The potential for further price deregulation for energy consumers in Northern Ireland was discussed. The benefits and disbenefits for consumers of such a development were identified by board members. Options for opening up different sectors of the market to competition were also discussed.
- 7.4 There was also an examination of the working of the current retail energy market arrangements in Northern Ireland. While it was noted that regulatory interventions tended to act as a cap on prices as well as constraining supplier margins, the level of consumer switching was highlighted. A discussion ensued on potential approaches to increasing the level of switching between different suppliers by consumers.
- 7.5 The legal arguments relating to the potential for opening up the market to competition were also addressed.
- 7.6 Board members noted the proposed consultation on retail energy market competition and endorsed efforts to promote engagement on the range of issues. It was also noted that a further board discussion, following the consultation, was scheduled for early 2016.

## **8 ELECTRICITY AND GAS SUPPLY PRICE CONTROLS 2017**

- 8.1 Kevin Shiels introduced this item which sought the board's view on key issues relating to the approach to the electricity and supply price controls 2017 (SPC17). In particular, the board's comments were sought on the issue of the option of a rollover for Power NI, the scope and coverage of the price control and the margin.

- 8.2 Board members discussed the potential for rolling over the period of the existing Power NI price control - given some uncertainty over the costs and margin for the company - for a further year, or more preferably two years. Timing dependencies for Power NI in respect of the introduction of the new wholesale electricity market were clarified. The impact of rolling over the Power NI price control was also discussed. It was agreed that exploring this option further with Power NI would be beneficial.
- 8.3 The market shares of the various supply companies, particularly in respect of certain sectors of the gas market in the Greater Belfast area, were noted. It was agreed that consultation comments would be helpful in determining the scope and coverage for SPC17.
- 8.4 Three potential options for the approach to the Power NI margin were identified and initial views were provided on the most favourable choice to protect consumers' interests.
- 8.5 Finally, the Board noted the timetable for SPC17.

## **9 HIGH LEVEL PRICE CONTROL PAPER**

- 9.1 Brian McHugh introduced this item which provided a draft high level control paper, 'A Common Approach to Promoting Effective and Efficient Monopolies'. He outlined the background to the development of the paper and the key features.
- 9.2 Board members welcomed the development of the paper and discussed the expectations that would arise, both for us and regulated utilities, in putting the paper's key principles into practice.
- 9.3 The Board endorsed the publication of the paper along with the Forward Work Programme and encouraged positive engagement with stakeholders.

## **10 EAST DOWN UPDATE**

- 10.1 Brian McHugh updated the board on key developments and issues associated with the East Down project.
- 10.2 Queries about support for the project in the local area, the process for moving the process forward once policy and regulatory issues had been finalised, timing issues and financing matters were addressed.
- 10.3 Finally, a more strategic discussion on the development of natural gas across Northern Ireland also took place and the viability of further extensions to other areas was discussed.

## **11 WINTER READINESS**

- 11.1 Tanya Hedley briefed the board on preparations that regulated utilities are undertaking for the winter period 2015/16.

11.2 The board welcomed and noted the update.

## **12 ISEM ROLES AND RESPONSIBILITIES**

12.1 Jo Aston introduced this information item which involved a briefing for the board on the recently published I-SEM Roles and Responsibilities paper. That paper assigned roles and responsibilities to the Eirgrid group within the new market. The board were also briefed on the issues of conflict of interest and synergies that had been identified.

12.2 Board members discussed the importance of the role of the SEM Committee in ensuring that consumers' interests were protected.

12.3 It was noted that a separate governance review process would be undertaken to address the potential conflict of interest issue. Board members sought further information on the purpose and intended outcome of such a review.

12.4 While noting the importance of the role of the Eirgrid group in supporting the delivery of ISEM it was also recognised that the potential conflict of interests issues had to be addressed. It was agreed that the board would be kept informed of progress this work.

## **13 MINUTES**

13.1 The minutes of the previous meeting on 20 September were approved for publication.

## **14 ACTION POINTS**

14.1 The action points were reviewed and noted.

## **15 I-SEM UPDATE**

15.1 Jo Aston provided an update on the overall progress of the project. This included the publication of key decision papers, the development of working groups and stakeholder engagement.

15.2 Project risks were discussed and, in particular, the legal vires risk and those I-SEM decisions that were dependant on the north-south interconnector being in place.

## **16 REPORT FROM THE EXECUTIVE TEAM**

16.1 Jenny Pyper provided an overview of the Executive Team report. She noted the extensive work in respect of I-SEM and this necessitated Brian McHugh also being assigned to the DS3 workstream.

16.2 The board's attention was drawn to progress in respect of the SONI price control and the RP5 licence modifications.

16.3 Developments regarding the NI Water supply disruption action plan, the EU Network code project and Gas to the West were also noted. A briefing note was also provided for board members in respect of a potential connection from the gas to the west area

to a business in the County Cavan. Board member queries on practical and regulatory aspects of the potential connection were addressed.

- 16.4 The consequential arising from the closure of the NI Renewables Obligation were also discussed. It was noted that this had led to an unprecedented increase in the number of grid connection applications. Discussions with NIE and SONI were ongoing to address this issue.
- 16.5 The Annual Equality report submission was considered and approved by the board.
- 16.6 The board was briefed on the mid-year review of the budget. The proposed budgetary increase was largely attributable to the I-SEM project.
- 16.7 Jenny Pyper briefed the Board on the reasons for the increasing costs for the I-SEM project. This related to: the increased scope and complexity of the project, the emergence of the DS3 workstream and the need to fully integrate this with I-SEM, the extension of the original project timeline out to 2017 and additional project management requirements needed to oversee the broader scope of the work involved in a holistic way.
- 16.8 Several other queries relating to the mid-term review were clarified and the Board approved the revised budget. It was also agreed that a business case seeking board approval for an increased level of I-SEM expenditure would be circulated by correspondence.
- 16.9 The board also noted the assessment of progress against FWP targets and reviewed the proposed changes to the corporate risk register. A discussion also took place on a new risk that had been identified and the board approved the finance and performance report.

## **17 ANY OTHER BUSINESS**

- 17.1 The board was briefed on arrangements for the visit to the Fofanny Wastewater Treatment Plant.

There being no other business the meeting concluded at 12.50 pm.



