

**MINUTES OF A MEETING OF THE NORTHERN IRELAND AUTHORITY FOR UTILITY
REGULATION (THE 'AUTHORITY') HELD ON THURSDAY, 24 MAY 2018 IN QUEENS HOUSE
AT 11.00 A.M.**

Present:

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

In attendance:

SMT - Kevin Shiels, Donald Henry, Tanya Hedley, John Mills, Jo Aston, Greg Irwin

Ciaran MacCann (agenda item 4), Jody O'Boyle (agenda item 5), Paul Harland (agenda item 8), Colin Magee (agenda item 11), Barbara Cantley (agenda items 12 and 15), John Magill (agenda item 12), Veronika Gallagher and Fiona Kane (agenda item 13), Michael Campbell (agenda item 14), Colin Broomfield and Lesley Robinson (agenda item 15), Robin McCormick and Louis Fisher (agenda item 17).

1. APOLOGIES FOR ABSENCE

1.1 Jo Aston

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 There were no declaration of interests.

4. POWER NI PRICE CONTROL EXTENSION

4.1 Tanya Hedley introduced this item which set out a proposal in respect of operational expenditure (Opex) for SONI in respect of the ISEM.

4.2 Board members clarified the process for assessing Opex costs for both SONI and EirGrid by the respective regulators. The level of engagement with SONI was also explored. Further information was sought on the proposed staffing costs. The opportunity to provide incentives to promote outperformance was also discussed. Finally the decision-making process in respect of the SEM Committee was clarified.

4.3 With all issues addressed, the board approved the proposed level of Opex up to £3.1 million. The board also endorsed the proposal to request that the SEM Committee allocate 25% of the all-island ISEM Opex costs to SONI.

5. DECISION TO IMPLEMENT CMA COST ORDER – SONI LICENCE MODIFICATIONS

5.1 Jody O'Boyle introduced this item relating to a request for an allowance relating to DS3 control room tools.

5.2 Board members clarified the SONI element of the funding request. There was also a discussion on governance arrangements in respect of SONI's allowance request.

- 5.3 While the board supported investment that could be demonstrated to increase renewable penetration and add value for consumers it approved the request up to the cap identified in the paper. Furthermore, the board agreed that approval of an allowance was conditional on the provision of a business case, whose key elements were identified in the paper, which was signed by a signed accountable officer.

6. NISEP

- 6.1 Tanya Hedley introduced this item which provided an update on the proposed modifications to SONI's licence required to implement the Competition and Markets Authority's (CMA) final determination and order which was published in November 2017.
- 6.2 The timing of the licence modifications process was clarified. A broader discussion also took place on lessons emerging from the CMA appeal and engagement with SONI going forward.
- 6.3 The board noted the current position on the licence modifications and approve the licence modification decision and the modifications.

7. MUTUAL ENERGY GOVERNANCE REVIEW

- 7.1 Tanya Hedley introduced this item which provided an update on guidance for Transmission Network Pre-construction Projects (TNPP) and costs subject to the Dt mechanism.
- 7.2 Board members raised several queries and discussion points around the regulatory approach for TNPPs and Dt, dialogue between SONI and NIE Networks, the recovery of costs by SONI and the second north-south electricity interconnector construction.
- 7.3 With all queries and discussion points addressed the board approved the guidance decision paper.
- 7.4 The board also conducted the reporting requirements to the CMA following the SONI price control appeal and it was agreed that identified remedies have been addressed.
- 7.5 Finally, the board received an update on steps being taken to ensure that SONI can evidence its operational independence as a TSO.

8. AES DEROGATION PROCESS

- 8.1 Roisin McLaughlin introduced this item which set out conclusions after consultation on two remitted matters following the CMA's GD17 price control appeal by firmus energy.
- 8.2 In exploring the conclusions being reached the board recognised the extent of the work undertaken given the challenging nature of the remitted matter relating to the non-additionality rate. Much of the board discussion focused on the consultation comments received and the evidence provided as a basis for setting the non-additionality rate.
- 8.3 A broader discussion also ensued on engagement with firmus energy and the strategic positioning of the company.
- 8.4 At the conclusion of the discussion, the board endorsed both the decision in respect of Ground 2A – connections target and Ground 2B – the non-additionality rate. The licence changes decision in respect of the revised determination values was also endorsed.

- 8.5 The board also was apprised of the Verified Controllable Capital Forecast (VFCE) for the Gas to the West licence. It was confirmed that the final VFCE was within the range set by the board at its January meeting.
- 9. SONI/EIRGRID GENERATION CAPACITY STATEMENT 2017-18**
- 9.1 Greg Irwin introduced the Forward Work Programme (FWP) for 2018-19 noting the further development of the FWP from the draft version and comments received during the consultation period.
- 9.2 The board reviewed the consultation comments received. Some drafting suggestions were also made in respect to the gas refinancing project and Brexit. A brief discussion took place on the IME4 workstream and it was agreed that, in the absence of guidance on the implementation of this for Northern Ireland, the existing wording in the FWP was appropriate.
- 9.3 The board welcomed and approved the final draft as presented, which would be subject to a final drafting review before publication.
- 10. PNGL NETWORK EXTENSION TO WHITEHEAD**
- 10.1 Donald Henry provided an overview of the draft 2018-19 budget highlighting key items and the comparison with last year.
- 10.2 The board clarified aspects of the budget relating to ongoing and emerging pressures and specific items (for instance relating to training).
- 10.3 It was noted that the Audit Committee had reviewed the budget prior to it being discussed by the board.
- 10.4 The board approved the budget as presented.
- 11. CONSULTATION NETWORK CODE ON HARMONISED TRANSMISSION TARIFF STRUCTURES**
- 11.1 Kevin Shiels and Colin Magee provided an overview of this item relating to a call for evidence relating to the use of Third Party Intermediaries (TPIs) in the non-domestic retail energy market.
- 11.2 The board discussed the potential options considered following the call for evidence and various engagements with market stakeholders. The value of using TPIs, as well as the benefits for consumers and the experience from other jurisdictions, was also explored. A query in respect of TPIs and the FWP was also clarified.
- 11.3 Having considered the options the board agreed that the information and monitoring approach as outlined in Option 1 was the best option relating to regulatory oversight of TPIs at this stage.
- 12. GDPR**
- 12.1 Barbara Cantley introduced this update on a compliance audit of Budget Energy Limited in respect of regulatory undertakings provided by the company last year.
- 12.2 The board clarified and discussed the initial audit findings, the timing and scope of further audits and the publication of these and the process in respect of any potential enforcement action that may result.

- 12.3 Based on the first audit the board expressed its concern and disappointment in respect of ongoing compliance issues. The board agreed that if there was continuing compliance issues identified in the second audit (due to start in May) and the third subsequent audit, that the board would then reserve its right to take the appropriate action pursuant to the UR Enforcement Procedure.

13 ANNUAL REPORT

- 13.1 Tanya Hedley introduced this item which sought the board's endorsement of the charging methodology for an offtake of the South North pipeline (SNP), the associated capacity offered and proposals for the duration of the agreement.
- 13.2 The board discussed the proposed increase in capacity in the context of any potential impact on security of supply. Board members also discussed the wider context of gas regulatory arrangements including the extension of the Transportation Agreement (TA) relating to access to the GB market by NI suppliers.
- 13.3 In endorsing the proposals as presented the board also agreed that it would also be prudent to progress the negotiations in respect of the TA in parallel with the SNP offtake.

14 MINUTES

- 14.1 Kevin Shiels and Michael Campbell briefed the board on the outcome regulated SSE gas tariff review and the increase in consumer bills.
- 14.2 Board members clarified the rationale for the gas tariff increase and the impact on consumer bills. The relative position of Northern Ireland's gas tariffs compared to other jurisdictions was also explored. An update was also provided on the position in respect of regulated electricity tariffs.

15 ACTION POINTS

- 15.1 Barbara Cantley provided an overview of the recently published Quarterly Transparency Report (QTR).
- 15.2 Board member queries in respect of switching and price comparisons with other jurisdictions were addressed. An amendment to the QTR was suggested in respect of comparative pricing.
- 15.3 The board noted the latest edition of the QTR.

20 REPORT FROM THE EXECUTIVE TEAM

- 20.1 Jenny Pyper provided an overview of the Executive team report.
- 20.2 The board discussed the forthcoming House of Commons NI Affairs Select Committee hearing on 14 March.
- 20.3 An update on the deharmonisation of retail energy market IT systems was provided.
- 20.4 Roisin McLaughlin briefed the board on the proposal to add an addendum to an original gas engineering business case noting that the intention to instruct the Central Procurement Directorate to separately procure gas engineering consultants. This would be procured under the scope and terms of the original business case and with an estimated contract value as presented over 3 years - which is the equivalent cost for 3 years to that approved in the

business case for 4 years (as one year has lapsed). The board approved the proposal as presented.

20.5 The board also approved a revised terms of reference for the Audit and Risk Committee as presented.

20.6 Donald Henry also presented the finance and performance report which was approved by the board. Board members noted the forecast budget outturn and the position against FWP targets. It was noted that the process for reviewing the risk register would shortly be commissioned with a view to presenting a draft corporate register at the May Audit Committee meeting.

There being no other business, the meeting concluded at 2.50 p.m.