

**MINUTES OF A MEETING OF THE NORTHERN IRELAND AUTHORITY FOR UTILITY
REGULATION (THE 'AUTHORITY') HELD ON THURSDAY, 10 MARCH 2017 IN QUEENS
HOUSE AT 11.00 A.M.**

Present:

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

In attendance:

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

John Mills, Caspar Swales and Alan Craig (for agenda item 4), Veronika Gallagher and Graham Craig (for agenda item 6), Roisin McLaughlin (for agenda item 9), Paul Bell (for agenda item 11)

1. APOLOGIES FOR ABSENCE

1.1 None.

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 PRICE CONTROL DRAFT DETERMINATION

- 4.1 Brian McHugh introduced this item which sought the board's approval for the draft determination as presented. He drew the board's attention to previous discussions on key RP6 principles which the board had been asked to endorse and reprised the outcome of these discussions.
- 4.2 The board reviewed the proposed approach to the allocation of an efficiency discount to apply to the baseline costs for indirects and inspections, maintenance, faults and tree-cutting (IMF&T). Board members discussed the methodology being employed to derive the efficiency discount and recent outturn performance against allowances by NIE Networks (NIEN). Clarification was also provided on the profile of expenditure by NIEN over the RP5 price control period. There was agreement that a P0 efficiency discount be applied to NIEN's 2015/16 base costs with a catch up efficiency to the upper quartile performing comparator company in Great Britain.
- 4.3 John Mills briefed the board on projects proposed by NIEN in respect of innovation investment. Board members explored the scope and potential outcome/s from such projects. A discussion also took place on the approach to incentivising innovation. There was agreement that a more developed plan and structure needed to be in place to support investment in innovation.
- 4.4 The board also discussed key aspects of proposals in respect of outcomes, outputs and key performance indicators and uncertainty mechanisms, as well as the approach to metering and connections. While the board endorsed the proposals there were some concerns over the achievability of key Guaranteed Standards of Service metrics. Finally, board members asked about the outcomes that would emerge following the introduction of contestability in electricity connections.

- 4.5 Alan Craig provided a further briefing to the board around the financeability proposals. Clarification was provided on the financials models presented and, in particular, the impact on ratios should a particular level of gearing be chosen. Board members also sought an update on engagement with credit rating agencies on NIEN. The board endorsed the approach to financeability outlined in the paper.
- 4.6 With all queries addressed and having commented on the proposals outlined, the board was content to endorse the draft determination as presented subject to minor amendments in advance of publication. A brief discussion ensued on the publication of the draft determination and the board noted that there was scope for NIEN to provide further information to inform the final determination. It was noted that the scope to provide further information was limited by the tight RP6 timetable which NIEN had requested.
- 5. SONI PRICE CONTROL 2015-2020**
- 5.1 Tanya Hedley introduced this item which sought the board's approval for licence modifications for publication along with the decision paper explaining these modifications.
- 5.2 She reminded the board of previous discussions on the price control and provided an update on the development of the licence modifications. An update on recent meetings with SONI, and correspondence relating to the price control, was also provided.
- 5.3 Board members discussed those areas of the price control which had been raised by SONI in recent meetings and correspondence. In particular, the issue of the parent company undertaking, and its impact on the SONI's financeability, was fully explored. It was agreed that a letter of clarification, responding to the issues raised by SONI, should be sent to the company.
- 5.4 The board approved the SONI licence modifications notice and the licence modifications for publication along with an associated decision paper.
- 6. GAS TRANSMISSION PRICE CONTROL 2017-2022**
- 6.1 Tanya Hedley introduced this item which provided an update on the GT17 price control. A presentation was provided which outlined the process employed to date and highlighted key areas of the price control and consultation responses received.
- 6.2 A key area of discussion for the board was on capital maintenance. Board members discussed the approach of the companies in this area and the rationale for the allowance sought. Specifically, the difference between the capital maintenance allowance sought by GNI and the current proposal for the price control determination was explored. It was noted that a further analysis of submissions from both companies would be undertaken before a proposed allowance for capital maintenance is finalised.
- 6.3 There was also some discussion on the Weighted Average Cost of Capital (WACC). Board members clarified the makeup of the WACC request by GNI and the basis for the RPI/CPI adjustment proposed. A query around comparisons between the WACC proposed for GNI versus that for the company in the Republic of Ireland and for similar companies in Great Britain was addressed.
- 6.4 A brief discussion took place on the governance arrangements for Mutual Energy and it was noted that a review would be undertaken.

- 6.5 Finally the board discussed the timetable for the final GT17 determination. There was an endorsement of the proposed approach and the process for developing the final determination, noting that it would be subject to legal review prior to publication.

7. FORWARD WORK PROGRAMME (FWP) 2017-2018

- 7.1 Jenny Pyper introduced this item which sought the board's approval for the publication of the Forward Work Programme 2017-18.
- 7.2 Board members noted the consultation comments and the drafting proposals for the final FWP. The need to appropriately reflect the situation regarding the future of the NISEP scheme in the FWP was agreed.
- 7.3 The board approved the final draft of the FWP as presented, noting that the document would be subject to a final drafting review by the Executive team before publication.

8. DRAFT 2017-2018 BUDGET

- 8.1 Donald Henry introduced this item which sought the board's consideration and approval for the 2017/2018 budget. It was noted that the draft budget had been previously subject to scrutiny by the Audit Committee. He outlined the process for developing the budget, key assumptions and key risks. In this regard he drew the board's attention to the proposed level of consultancy expenditure and the impact on the budgetary process of the continuing absence of the NI Executive and the Assembly.
- 8.2 In noting the overall budget proposed for 2017-18, board members sought further information on the likely budgetary outlook for future years. A key part of the discussion was the impact on future budgets once major workstreams, such as delivering the I-SEM, had been completed. Board members agreed that it was important that the budgetary investment delivered tangible benefits for consumers.
- 8.3 There was also discussion around budget risks. In particular, board members explored the likelihood of additional work materialising in-year and the consequent impact on budget and resources generally. Board members also discussed how, should additional work materialise, this might affect the delivery of the FWP.
- 8.4 The board was briefed on the consequences of reporting outturn against the Main Estimate position and it was agreed that a briefing note would be circulated to the board. An advice note had been prepared for the Jenny Pyper on the excess vote position and it was agreed that this should be circulated to the board. It was noted that final guidance is awaited from the Department of Finance on the approval of the budget through the Main Estimates Process.
- 8.5 The board approved the budget for 2017/2018 and noted that the budget allocations are prepared on the basis that they would be subject to review at the mid-year stage given potential uncertainties.

9. LEGAL PANEL FRAMEWORK

- 9.1 Donald Henry introduced this item which sought approval for the extension of the current legal services framework panel for a further year and the business case for re-tendering of the panel to take effect when the current panel expires.

- 9.2 Following a clarification on the extension of the current panel, the board approved the extension of the current legal services framework panel and the business case for re-tendering.

10. RETAIL MARKET QUARTERLY TRANSPARENCY REPORT

- 10.1 Kevin Shiels briefed the board on the key points arising from the Retail Market Quarterly Transparency Report (Q4, October to December 2016). He focused on key highlights from the report, particularly regarding the comparative pricing situation by business customer consumption band.
- 10.2 The board's discussion focused on the competitiveness of the retail market. This related to the extent of switching between suppliers and the extent to which certain customer groups were more likely to be active in this regard. There was also discussion on the number of suppliers in the market, the potential for further new entrants and the tariff options being offered. A query on the publication of enhanced retail marketing monitoring data was addressed.
- 10.3 The board noted the publication of Retail Market Quarterly Transparency Report (Q4, October to December 2016).

11. MARKET MONITORING UNIT REPORT, Q4 2016

- 11.1 Paul Bell introduced this item relating to the publication of the Single Electricity Market Monitoring Unit report for Q4 2016.
- 11.2 The board discussed the spiking observed in wholesale prices over the quarter and the reasons for the variability. The issue of currency volatility and its impact on pricing was raised. The consequent impact on the retail electricity market was also discussed. Board members also noted the spiking in the system marginal price depending on the time of day.
- 11.3 Board members commended the improved presentation of the report and agreed that it should be regular item on future board agendas.

12. MINUTES

- 12.1 The minutes of the board meeting on 9 February were agreed for publication.

13. ACTION POINTS

- 13.1 The action points were reviewed by the board.

14. REPORT FROM THE EXECUTIVE TEAM

- 14.1 Jenny Pyper provided an overview of the Executive team report.
- 14.2 She updated the board on progress on making decisions in respect of the I-SEM Forwards and Liquidity workstream.
- 14.3 The board were provided with feedback on the recent Planning Appeals Commission public hearing on the North-South Interconnector in Armagh and the timing for a likely decision.
- 14.4 In noting ministerial planning approval for gas to the west, the board was made aware of an issue in respect of a proposal to upsize a gas mains pipeline which serves Enniskillen and Derrylin. Board members sought clarification on the risks, timing and the rationale associated with the proposal. It was noted that the board would be asked to make a final decision on this proposal as part of its consideration of Gas to the West capex, later in 2017.

- 14.5 The board received an extensive briefing on the Competition and Markets Authority GD17 appeal hearing which took place on 10 March. Board member queries on specific aspects of the appeal and the future timing for the progress of the inquiry were addressed.
- 14.6 Issues associated with price spikes in the SEM - particularly the impact on NI generators, as well as a further outage on the Moyle Interconnector, were discussed.
- 14.7 The Finance and Performance report was presented and approved. Approval for an updating the terms of reference for the Audit and Risk Committee was also approved. The overall budgetary position, progress against Forward Work Programme targets and changes to the risk register were also noted.
- 14.8 There being no other business, the meeting concluded at 2.50 pm.