

MINUTES OF A MEETING OF THE NORTHERN IRELAND AUTHORITY FOR UTILITY REGULATION (THE 'AUTHORITY') HELD ON THURSDAY, 29 JUNE 2017 IN QUEENS HOUSE AT 11.00 A.M.

Present:

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

In attendance:

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

John Mills, Caspar Swales, Alan Craig and Roy Mitchell (agenda item 4), Ursula O'Kane (agenda item 5), Barbara Cantley (agenda item 5 and 13), Veronika Gallagher and Graham Craig (agenda item 6), Neil Bingham (agenda item 7 and 16), Ian Campbell and Martina McKinley (agenda items 9 and 18), Jody O'Boyle and Sean Lyons (agenda item 10), Sarah Brady and Meadhbh Patterson (agenda item 11), Paul Stewart (agenda item 12), Colin Broomfield (agenda item 13), Roisin McLaughlin.

1. APOLOGIES FOR ABSENCE

1.1 Bill Cargo, Donald Henry.

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 Tanya Hedley declared a potential conflict of interest in respect of agenda item 4 (part of) and voluntarily absented herself from discussions on that issue. Richard Rodgers declared a potential conflict of interest in respect of agenda item 8 and voluntarily absented himself from discussions on that issue.

4. RP6 DRAFT DETERMINATION

4.1 Brian McHugh introduced this item which sought the board's approval for the final RP6 determination. He updated the board on the timetable for the publication of the RP6 determination and provided an overview of consultation responses. A presentation was provided which focused on the key buildings blocks of the price control.

4.2 An extended discussion took place on financeability. The position on the cost of equity was explored in the context of regulatory precedents and the risk profile of NIE Networks (NIEN). The rationale for changing the cost of debt, and the impact on the Weighted Average Cost of Capital (WACC), was also discussed. In this context, board member queries and comments around the gearing assumption and financial ratios were addressed. Overall, the board endorsed the approach to financeability as presented. The board emphasised the importance of clearly articulating the rationale for regulatory decisions on financeability in the final determination publication.

4.3 Board members clarified the proposed capital expenditure allowance. There was a discussion on the reasons for the gap between the allowance sought by NIEN in this area and the proposed final determination. Queries relating to the mechanism for non-core capital

investment and customer billing systems were addressed. The board endorsed the approach to capital investment as presented and noted that the final figures might change slightly based on a final review.

- 4.4 Further to its discussion at the May board meeting, the board considered the issues related to decisions on Indirects and Inspections, Maintenance, Faults and Tree Cutting (IFM&T) efficiency benchmarking. In particular the board explored the application of an efficiency adjustment to IFM&T. There was also a discussion on Real Price Effects (RPEs) and the representations made by NIEN on this aspect of operational expenditure benchmarking. In reflecting on the efficiency adjustment and the RPEs issues the board was mindful of the regulatory judgement required in the overall context of reaching a balanced price control determination.
- 4.5 Board member queries were also addressed in respect of pensions, approaches to customer engagement and the changes proposed for allowances between those presented in the draft determination and the final.
- 4.6 While being aware of the concerns raised by NIEN, the board was clear on the importance of endorsing a balanced price control determination which would protect the interests of consumers.
- 4.7 The board therefore substantially endorsed the price control decisions as presented. It was agreed that, before the final determination was published, a review of the latest information regarding the IFM&T efficiency adjustment and RPEs be undertaken. The board delegated this final review to Bill Emery, Jenny Pyper and Jon Carlton. The Board also noted the licence modifications, to be published for consultation, would require approval by the Board in August by correspondence.

5. CODE OF PRACTICE ON BILLS AND STATEMENTS

- 5.1 Ursula O'Kane introduced this item which sought the board's approval for a proposed code of practice on bills and statements. She provided some context to the development of the code and outlined the engagement with, and the views of, stakeholders.
- 5.2 There was a brief discussion on how to ensure effective compliance with the code by suppliers. In this respect it was agreed that the board would receive a paper on the Retail Energy Market Monitoring framework later during the 2017-18 year. Board member queries around the driver for the code of practice and the measurement of the impact of the code were also clarified.
- 5.3 The board commended the work undertaken and approved the code as presented.

6. GAS TRANSMISSION PRICE CONTROL 2017-22: COST OF CAPITAL

- 6.1 Veronika Gallagher introduced this item which sought the board's approval for the proposed WACC value. The board had previously approved operating and capital allowances at its May meeting and it was noted that there had been a review of the cost of debt following the outcome of the UK General Election.
- 6.2 Board members discussed the risks faced by GNI (UK) in the context of the setting of the WACC. Other aspects relating to the company's financiality were explored. The comparison of GNI (UK)'s cost of debt with other regulated company's was discussed.

- 6.3 With all queries addressed the board approved the WACC value as proposed in the paper and the consequent value of the inputs into the model to calculate GNI (UK) capital repayments.

7 ADDITIONAL COSTS FOR CURRAGHAMULKIN CLUSTER

- 7.1 The board noted the information provided and approved the provision of additional costs for the Curraghmulkin Cluster as presented.

8. NORTHERN IRELAND SUSTAINABLE ENERGY PROGRAMME (NISEP)

- 8.1 The board noted the contents of this paper which set out the context for extending NISEP. Following consideration of the information provided the board agreed the draft reply to the Department for the Economy regarding the feasibility of extending NISEP for a further year – on an as is basis to March 2019.

9. CORPORATE RISK REGISTER

- 9.1 Ian Campbell and Martina McKinlay presented this paper which was the draft Corporate Risk Register.
- 9.2 The board noted the ongoing development and updating of the risk register and endorsed the risk management process. It was agreed that a further opportunity should be provided at the August Board Advisory Forum for the board to consider the risk register in more detail.

10. SONI CMA APPEAL AND SONI PENSIONS

- 10.1 Tanya Hedley introduced this item which provided an update on the SONI CMA appeal and next steps and the SONI price control pensions decision.
- 10.2 Board members clarified process and timing aspects of the CMA appeal. The role of the SEM Committee had been raised as part of the CMA process and it was noted that a legal note was being prepared to clarify this issue.
- 10.3 Board member queries in respect of additional pensions information provided by SONI and other related matters were addressed.
- 10.4 The board noted the update on the CMA appeal and commended the team on their work to date. The board also endorsed the minded-to position on SONI pensions, noting that a final position paper would be submitted to the board for approval following public consultation.

11. CONSUMER PROTECTION STRATEGY: PROGRESS UPDATE

- 11.1 Kevin Shiels introduced this item which provided a high-level summary on progress in respect of the Consumer Protection Strategy (CPS) and a draft consultation paper on the care register review.
- 11.2 The board noted the progress made on the CPS. The board also welcomed the publication of a switching leaflet to assist consumers with choosing their energy supplier.
- 11.3 Board members clarified several aspects of the draft care register review consultation paper. The engagement with network companies on the care register and the take up of the critical care scheme by these companies was discussed.
- 11.4 The board endorsed the publication of a draft consultation paper on the care register review.

12. WATER ISSUES UPDATE

- 12.1 Paul Stewart introduced this item which provided an update on the current key work areas relating to water regulation.
- 12.2 The board explored the implications for the delivery of efficient investment by NI Water in the context of public expenditure challenges. Board members also discussed the engagement by the company on the delivery of its investment programme. There was endorsement of the process outlined for the Mid-term review.
- 12.3 It was agreed that high-level engagement with both the Department for Infrastructure and NI Water would be valuable in advance of a further board discussion in the Autumn.

13. QUARTERLY TRANSPARENCY REPORT Q1 2017

- 13.1 Kevin Shiels introduced this item which provided a summary of key elements of the Quarterly Transparency Report (QTR) that was published at the end of May.
- 13.2 Board members briefly discussed the development of the Retail Energy Market Monitoring (REMM) framework and its use as a tool for enhancing transparency, monitoring compliance and informing policy. It was noted that there may be value in assessing how similar market monitoring tools had been used elsewhere.
- 13.3 The board noted the summary of the QTR.

14. ISEM CRM STATE AID SECURITY OF SUPPLY

- 14.1 Jo Aston introduced this item by providing a high level overview of progress on the delivery of the I-SEM. She emphasised that overall progress was still on track with a focus on market readiness. Forthcoming critical deliverables were outlined and she briefed the board on key risks. It was noted that there was ongoing stakeholder engagement and a senior stakeholder event was planned for the following week.
- 14.2 Colin Broomfield provided a presentation on the I-SEM Capacity Remuneration Mechanism. The presentation focused on the rationale for, and design of, the CRM and the process of development. He also provided an overview of the state aid process associated with the CRM and outlined security of supply considerations in respect of Northern Ireland.
- 14.3 Board members took the opportunity to raise queries and seek clarifications in respect of the views of the markets participants on the CRM, impact on consumer costs and bills and security of supply risks.
- 14.4 The board noted the I-SEM update and the presentation on the CRM.

15. ELECTRICITY CONNECTIONS REVIEW

- 15.1 Neil Bingham provided a presentation on the electricity connections policy review. His presentation set out the key proposals, stakeholder feedback and key timelines.
- 15.2 Board members sought further information on those applicants seeking a connection and discussed the issues raised by SONI and NIEN.
- 15.3 The board endorsed the proposals in principle noting that final approval on the NIEN licence connections modifications would be sought from the board by correspondence.

16. MINUTES

- 16.1 The minutes of the board meeting on 10 March were agreed for publication subject to one minor amendment.

17. ACTION POINTS

- 17.1 The action points were reviewed by the board.

18. REPORT FROM EXECUTIVE TEAM

- 18.1 Jenny Pyper provided an overview of the Executive team report.
- 18.2 She noted that several of the key report items had been covered on the board agenda. She drew the board's attention to the submission of our annual resource accounts on time and without qualification and indicated that the annual report would be lodged next week. It was agreed that a final draft of the annual report would be sent to board members following the board meeting.
- 18.3 Board members were briefed on the review of domestic electricity prices. The updated terms of advertisement for engineering services was also noted.
- 18.4 Alex Wiseman provided a summary of the Audit and Risk Committee's Annual Report and this was approved by the board.
- 18.5 Minor changes to the scheme of delegation, in respect of the decision maker role on appeals, complaints and disputes, were provided and approved by the board.
- 18.6 The schedule of board and board sub-committee meetings for 2018 were approved.
- 18.7 The Finance and Performance report was presented and approved. Board members noted the budget position and a query in respect of approval to use resources after July was addressed. It was noted that the risk register was on the agenda (and a further discussion was planned for August). Progress against Forward Work Programme targets were also noted.
- 18.8 There being no other business, the meeting concluded at 3.55 pm.