

MINUTES OF A MEETING OF THE NORTHERN IRELAND AUTHORITY FOR UTILITY REGULATION (THE 'AUTHORITY') HELD ON THURSDAY, 9 FEBRUARY 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, Greg Irwin

Caspar Swales and Alan Craig (for agenda item 4)

1. APOLOGIES FOR ABSENCE

- 1.1 Jo Aston.
- 1.2 The board recorded its appreciation to Tony Doherty who deputised for Jo Aston during her recent absence.

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 UPDATE

- 4.1 Brian McHugh introduced this item, which sought the board's endorsement of RP6 price control principles for the following elements: (1) regional wage adjustment and methodology, (2) the preferred modelling approach and efficiency discount to apply to the baseline costs for inspections, maintenance, faults and tree-cutting (IMF&T) and (3) approach to ICT and market operations costs. Caspar Swales also provided a briefing on items of detail relating to each of these elements.
- 4.2 Board members explored the basis for the Regional Wage Adjustment (RWA) approach, the use of Standard Occupational Categories (SOCs) codes to inform this and the options for applying SOC codes. The use of 2-digit SOC codes to inform the RWA approach was endorsed by the board.
- 4.3 There was also discussion on the question of whether an adjustment should be made to the RWA for the share of labour which may be located nationally.
- 4.4 The board discussed the issue of the indirect allocation of costs to connections. In particular, the board explored the reasons for the comparative allocation rate of indirect costs to connections between NIE networks and other network companies based in GB. Board members clarified the materiality of the differing methodologies for the allocation of indirect costs. The board asked the team to consider the discussions and come back to the March board with a recommendation.

- 4.5 Finally, the board considered the approach to ICT costs. There was endorsement of the proposed approach to date, particularly in respect of supporting investment where this will deliver efficiency savings.
- 4.6 The board was briefly updated on the current analysis in respect of the costs of capital, financeability and customer impact aspects of the price control. Board members clarified and briefly discussed the analysis, noting that the draft determination would be presented at the March board meeting.
- 5. GD17 CMA UPDATE**
- 5.1 Jenny Pyper provided the board with an overview of the initial Competition and Markets Authority (CMA) hearing, in respect of the GD17 price control appeal, which had taken place earlier in the week. Board member queries were answered.
- 5.2 Brian McHugh briefed the board on the next steps in the CMA price control appeal process and board members discussed overall progress to date.
- 5.3 In noting the update, the board recognised the challenging timetable for the CMA price control appeal and expressed its gratitude to those staff involved for their hard work and commitment.
- 6. REGULATED RETAIL TARIFFS**
- 6.1 Kevin Shiels provided a verbal update on the context for, and the review of, regulated retail tariffs.
- 6.2 He noted that there would be no change to regulated electricity tariff in before April and explained the rationale for this outcome.
- 6.3 In noting the increasing wholesale energy costs, he indicated that it was likely that regulated gas retail prices would increase from 1 April. Board members clarified the reason for the increase and the extent of engagement with key stakeholders as part of the tariff review process. A query on the oil versus gas prices differential was addressed.
- 6.4 The board noted the update.
- 7. LEGAL UPDATE**
- 7.1 Donald Henry briefed the board on the judicial review relating to a connections issue and, specifically, the outcome of a hearing which had taken place earlier that morning.
- 7.2 Board members noted the outcome of the hearing, clarified a number of matters and discussed the implications of the judgement.
- 7.3 The board noted the update.
- 8. MINUTES**
- 8.1 The minutes of the board meeting on 14 December were agreed for publication subject to a minor amendment.
- 9. ACTION POINTS**
- 9.1 The action points were reviewed by the board.

10. REPORT FROM THE EXECUTIVE TEAM

- 10.1 Jenny Pyper provided an overview of the Executive team report.
- 10.2 The ongoing resourcing challenges associated with ensuring the delivery of the I-SEM by May 2018 were noted. Opportunities to identify additional support to assist with the delivery of the market coupling workstream were discussed.
- 10.3 The key findings from the SEM Market Monitoring Unit's investigation into bidding behaviour in the wholesale market were noted.
- 10.4 The board was advised of recent correspondence with Gas Networks Northern Ireland and SONI on their respective price controls.
- 10.5 Bill Emery provided an overview of key issues emerging from a recent roundtable involving UK regulatory bodies and the Department for Exiting the EU on the implications of Brexit. Board members commented on the key issues and there was a brief discussion on the implications of Brexit for Northern Ireland.
- 10.6 A board member query on electricity guaranteed standards of service was addressed.
- 10.7 The board's attention was drawn to a Committee on Standards in Public Life publication on the application of its standards by regulatory bodies in a new report entitled 'Striking the Balance'. The Executive team report included an annex providing both a summary of this publication and a summary outlining our assessment against a series of best practice statements from the Committee's publication. The inclusion of a memorandum of response from the Department of Finance to a Public Accounts Committee 'Dear Accounting Officer' letter about the collapse of the NI Events Company was also noted.
- 10.8 The Finance and Performance report was presented and approved. The position in respect of the Spring Supplementary Estimates, arising from the fall of the Assembly, and the potential risk of an excess vote in-year was noted. A draft minute of the Audit Committee's consideration of this issue at its meeting prior to the board was circulated. The overall budgetary position, progress against Forward Work Programme targets and changes to the risk register were also considered.
- 10.9 There being no other business, the meeting concluded at 1.40 p.m. to enable the board to attend a meeting with the board of the Consumer Council.

Bill Emery
22/3/17.

