

MINUTES OF A MEETING OF THE NORTHERN IRELAND AUTHORITY FOR UTILITY REGULATION (THE 'AUTHORITY') HELD ON THURSDAY, 23 JUNE 2016 IN QUEENS HOUSE, BELFAST AT 11.00 A.M.

Present:

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

In attendance:

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

Elaine Cassidy (all items), Sarah Brady and Meadhbh Patterson (agenda items 4 and 9), Roisin McLaughlin (agenda item 5), Paul Harland (agenda item 6), John Mills (agenda items 6 and 7), Jody O'Boyle (agenda item 8)

1. APOLOGIES FOR ABSENCE

1.1 Bill Emery.

1.2 In the absence of the Chairman, the board agreed that Jenny Pyper should chair the meeting.

2. FIRE DRILL

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

3. DECLARATIONS OF INTEREST

3.1 Richard Rodgers and Donald Henry, as members of the EnergyWise project board, indicated that they would recuse themselves from the discussion on the EnergyWise agenda item.

4. ENERGYWISE ENERGY EFFICIENCY SCHEME

4.1 Sarah Brady introduced this item which sought the board's approval for proposed next steps in respect of the Energywise Energy Efficiency scheme. She provided an update on developments since the last discussion by the board on this item at its February meeting. In particular she briefed the board on the responses to the public consultation on EnergyWise.

4.2 The board explored the Utility Regulator's role in relation to the EnergyWise scheme and the engagement with the Department for the Economy (DofE). The process for developing EnergyWise and proposed timetable was also discussed. A query in respect of the impact on consumer bills was also addressed. There was also a discussion on the options for EnergyWise in the context of responses received as part of the public consultation.

- 4.3 While there were some concerns around process and timing issues for EnergyWise, board approval was given to the executive team to draft and consult on the proposed licence modifications. It was agreed that a letter should be sent to DofE recording the board's concerns on the timing and process issues associated with EnergyWise.
- 5. GNI RATE OF RETURN LICENCE MODIFICATIONS**
- 5.1 Tanya Hedley introduced this item which sought the board's approval for modifications to GNI (UK)'s licence. She provided a brief overview of the licence modifications and next steps in the process.
- 5.2 Board members discussed the legal guidance provided in the paper on the licence modifications and the identified risks. A broader discussion also ensued in respect of the GNI price control and the development of a single TSO for Northern Ireland. It was noted that these broader issues would be the subject of a paper to be presented at the August meeting of the board advisory forum.
- 5.3 The board endorsed the process followed to date and approved the licence modifications as presented.
- 6. GD17 UPDATE**
- 6.1 Brian McHugh updated the board on responses to the GD17 consultation and sought the board's guidance on several key price control issues.
- 6.2 The board explored the build up of the weighted average cost of capital (Wacc) and the responses to the Draft Determination (DD). A discussion took place on potential changes to the DD including on the beta, treatment of tax and calculation of the inflation forecast. The impact of the inflation figure on the Wacc was clarified and discussed. Input from the UK Regulator's Network on the Wacc and best regulatory practice was noted. Overall the board agreed that work on inflation, beta and tax should progress based on the DD approach.
- 6.3 The treatment of debt and its impact on the Wacc was discussed. The level of volatility since the DD in debt markets was also noted. The impact of changes to the Wacc on consumer bills was also discussed.
- 6.4 A proposal on debt mechanism including the use of benchmark rates rather than actual debt rates received the board's endorsement.
- 6.5 Board members endorsed the proposals on the Wacc and the debt mechanism to adjust for actual debt costs. It was noted that additional analysis would be undertaken on how to incorporate the latest market cost of debt prior to a further discussion on GD17 at the August board.
- 6.6 Board members discussed the connections challenge in the light of an achieved level of connections and the changing pricing differential between oil and gas. It was recognised that the price differential created a more challenging environment. The rationale for the connections allowance gap – between the draft price control

determination and the request by regulated companies – was explored. The board requested that an assessment of the potential for additional allowances mechanism, in new gas areas, should be undertaken.

- 6.7 The benchmarking approach, based on actual costs, to capital expenditure was endorsed. Board members discussed the economic test in respect of gas network extensions and agreed that there was no strong case for removing this test.
- 6.8 The board re-affirmed its support for the principles that were published for the competition to convey Gas to the West. These principles would be applied in assessing submissions for volumes and expenditure for the Gas to the West distribution area. The board accepted that the updated G2W program which now include first operational commencement date in 2018 should be reflected in the final determination. However the board was clear it considered that the companies should be held to these new dates in terms of GD17 allowances and licence obligations.
- 6.9 It was noted that the change to the treatment of under-recovery in the firmus energy distribution area had been previously signalled and this approach was endorsed by the board. The board also supported the proposal to retain the forecast horizon for recovery of revenues for firmus energy to a 40-year period.
- 6.10 Finally, the board discussed ongoing efforts to engage with the regulated companies as part of the price control process. It was agreed that further engagement with regulated companies was necessary in advance of the board finalising its price control determination.

7. GAS TO THE WEST – INTERIM CAPEX ASSESSMENT

- 7.1 John Mills introduced this information item which provided a summary of the interim capital expenditure assessment for the Gas to the West project.
- 7.2 The board discussed financial and operational risks associated with delivering the project. Engagement with SGN/Mutual on project delivery issues was also discussed. An update on the timing for the project was provided. The most recent forecast by SGN/Mutual for 'gas on' dates for the various locations in the Gas to the West area was also provided and explained.
- 7.3 The board noted the update.

8. BELFAST WEST LANDBANK SITE

- 8.1 Tanya Hedley introduced this update for the board on current status of the Belfast West Landbank site and current operations.
- 8.2 Board members discussed the licence requirements in respect of NIE Networks. The overall risks associated with the Belfast West Landbank site and the plans by a developer to establish a power station in the vicinity of the Belfast harbour were also discussed. It was noted that the developer's plans appeared to meet the principles previously agreed by the board for release Belfast West Landbank site.

- 8.3 The board noted the update and endorsed the next steps identified in the paper.

9. ENERGYSUPPLIER CODES OF PRACTICE

- 9.1 Meadhbh Patterson introduced this information item which provided a briefing on the revised codes of practice for electricity and gas suppliers.
- 9.2 The board discussion focused on the extent to which the codes of practice facilitated higher standards of protection by suppliers towards consumers. The role of the Consumer Council in encouraging higher standards of protection was also discussed.
- 9.3 The board welcomed the progress being made to protect consumers and noted the update.

10. MINUTES

- 10.1 The minutes of the board meeting on 19 May 2016 were agreed for publication.

11. ACTION POINTS

- 11.1 The action points were reviewed by the board. All actions were complete.

12. REPORT FROM THE EXECUTIVE TEAM

- 12.1 Jenny Pyper provided an overview of the Executive team report. She noted the continuing challenging work agenda for the office.
- 12.2 Progress on delivering the I-SEM was also noted. The board was briefed on recent engagement with market participants and EU stakeholders relating to the I-SEM.
- 12.3 Some slides were provided for illustrative purposes on the issue of electricity connections. Board members clarified the problem and explored efforts by NIE Networks and SONI to address the unprecedented number of electricity connection applications. The impact of policy decisions to end subsidies for renewable projects was also discussed.
- 12.4 The board was briefed on a judicial review relating to a network connection issue.
- 12.5 Developments in respect of the Power NI price control and the designation of the commissioning supplier for the gas to the west were noted.
- 12.6 A paper reviewing the recent enforcement action against a regulated company was briefly discussed and board members were asked to provide any further comments to Elaine Cassidy. An update was also provided on current investigations of electricity suppliers.
- 12.7 In approving the Annual Report of the Audit and Risk Committee the board recorded its thanks to the staff involved in finalising the annual accounts in good time.

- 12.8 The board approved the finance and performance summary, noted the budget position and the assessment of progress against FWP targets. The board was updated on the latest position regarding the litigation arising from a previous determination. The board agreed that the litigation proceedings should be defended, DSO should be instructed accordingly, with the necessary costs incurred. Changes to the 2016-17 risk register and new risks emerging were identified. It was agreed that a workshop would be organised in the Autumn to enable the board, along with the Chairman of the Audit Committee, to discuss the risk register.

13. ANY OTHER BUSINESS

- 13.1 The board briefly discussed its meeting with the Consumer Council that was due to commence immediately after the board meeting.

There being no other business, the meeting concluded at 1.15 pm.