

**MINUTES OF THE THIRTY-FIFTH MEETING OF THE NORTHERN IRELAND
AUTHORITY FOR UTILITY REGULATION (THE 'AUTHORITY') HELD ON THURSDAY,
16 DECEMBER 2010 AT QUEENS HOUSE, BELFAST AT 9.00 AM**

Present: Mr Peter Matthews Chairman
Mr Jim Oatridge
Mr Philip Johnson
Mr Alan Rainey
Mr Chris Le Fevre
Mr Iain Osborne Chief Executive

In attendance:

Ms Jo Aston	Director of Water
Mr Donald Henry	Director of Corporate Affairs
Mr Kevin Shiels	Acting Director of Retail and Social
Mr Richard Goodfellow	Acting Head of Legal
Mr Greg Irwin	Board Secretary and Communications Manager
Ms Leigh Smith	Electricity Directorate (for agenda items 11 and 12)
Ms Sarah Friedel	Electricity Directorate (for agenda items 11 and 12)
Mr Dermot Mac Cann	Cross Utility project (for agenda item 12)
Mr Alan Craig	Water Directorate (for agenda items 13 and 14)
Ms Adele Boyle	Corporate Affairs Directorate (for agenda item 15)

1. APOLOGIES FOR ABSENCE

Clive Elphick, Etain Doyle, Brian McHugh, Shane Lynch.

2. FIRE DRILL

The Board Members were informed of the evacuation procedures which apply at Queens House in the event of a fire.

3. DECLARATIONS OF INTEREST

No declarations of interest were made.

4. MINUTES OF THE PREVIOUS MEETINGS

The minutes of the board meeting on 14 October were agreed subject to one minor amendment.

The Board ratified the appointment of, and recorded its congratulations to, Shane Lynch as the new Chief Executive of the Utility Regulator.

5. ACTION POINTS FROM THE PREVIOUS MEETING

The Action Points from the board meeting on 14 October were reviewed.

A query regarding the government spending plans and its impact on the Forward Work Plan was addressed. The Board requested that clarification be provided on the implications of the EU IME3 directive as they relate to board appointments.

The Chief Executive also updated the board on discussions with stakeholders regarding the consultation on gas supply exclusivity in the ten towns area.

6. CHIEF EXECUTIVE'S REPORT

(a) The Chief Executive presented his report and identified several areas for discussion.

An update on the Common Arrangements for Gas project was provided. Board members clarified the timing for progressing CAG. It was agreed that correspondence on the project should be circulated to board members.

The Board discussed a recent meeting between Authority officials and Ofgem regarding the issue of ACER representation. Board members considered next steps for the Authority to take on this issue. In this context the Board felt it was important that the Authority's status as a National Regulatory Authority was paramount.

The Board agreed that a formal agreement with Ofgem should be concluded as soon as possible. It was also agreed that the Department of Enterprise, Trade and Investment be briefed on the current situation. Finally, the Board agreed that the issue would be kept under review by the Authority.

A specific query from a board member regarding wind farm development was also addressed.

Board members also briefly discussed developments outside Northern Ireland relating to the potential divestment of energy assets.

(b) The Director of Corporate Affairs presented the Finance and Performance report for consideration and approval. An update on the budget position was provided, and specific easements and additional pressures identified. An overview of progress against the Forward Work Plan was also presented and there was some discussion on changes to the risk register.

Board members also considered the implications of the Coalition Government's Comprehensive Spending Review (CSR) and the more recent announcement of the draft budget by the NI Executive. The impact of funding allocations for areas of work which are relevant to the Authority was discussed. Specific issues regarding Renewable Obligation Certificates were also discussed and clarified.

7. REPORTS FROM BOARD SUB-COMMITTEES/ADVISORY GROUPS

Energy BAG

The Chairman of the Energy BAG, Philip Johnson, provided an update of the issues discussed by the BAG at its 18 November meeting. Issues discussed included the SONI price control, NIE Energy re-branding and CAG. A presentation on network development was also provided by NIE representatives.

Water BAG

The Chairman of the Remuneration Committee, Chris Le Fevre, indicated that the key issues discussed by the Water BAG at its most recent meeting were included on the Board's agenda.

Cross Utility BAG

Chris Le Fevre provided an update on the meeting of the Cross Utility BAG, which took place on 18 November. The BAG discussed two papers related to Project Zeus – on Government and Regulatory policy objectives and Duration and Scope of price controls. There was also discussion of service standards - an issue which had been previously referred to the BAG, for its consideration, by the Board.

Audit Committee

The Chairman of the Audit Committee, Jim Oatridge, provided a report of the most recent meeting of that Committee, on 18 November. It was also noted that several of the items discussed at the recent Audit Committee meeting were on the Board's agenda. The Committee noted the good progress being made on the implementation of audit recommendations. The board governance handbook was also discussed.

Remuneration Committee

The Chairman of the Remuneration Committee, Chris Le Fevre, noted that this Committee had not met formally since its previous meeting in October.

SEM Committee

Alan Rainey provided commentary on a SEM update paper to the board, which outlined several key issues being considered by the SEM Committee.

Much of the discussion focused on the carbon levy issue and a market power investigation. A key aspect of the discussion related to jurisdictional issues. The Board also considered the impact on Northern Ireland consumers of specific outcomes arising from the carbon levy issue.

8 NETWORK FINANCE

The Board noted that a paper on this subject was due to be discussed later on the board's agenda.

9 BRIGHT IDEAS

The Chairman outlined progress being made on a potential projects involving scouting organisations.

There was also a brief discussion regarding efforts by other organisations to develop ways of addressing value for money issues for home heating oil consumers.

10 BOARD STATEMENT ON CONFLICT OF INTERESTS

The Director of Corporate Affairs introduced this paper. He outlined the background to the paper and key revisions to the previous statement on conflict of interests.

Following a brief discussion, the Board approved the revised Statement on Conflict of Interests.

11 SONI PRICE CONTROL

Tanya Wishart made a presentation to board members on the SONI price control. The presentation covered the following aspects: timeline for the price control, the policy and regulatory framework, regulatory objectives, proposed approach and incentives.

Board members addressed the following areas in discussion: the proposals around incentivisation; capital expenditure (and specifically the extent to which approaches applied to other companies subject to regulatory price controls had been considered); operating expenditure and the assumptions underlying pension costs; and, the form of the price control – in terms of the revenue cap proposal.

It was agreed that the issues raised by the board would be considered in the development of the price control decision paper that would be presented at its March meeting.

12 FINANCING NETWORKS

Dermot McCann introduced a discussion paper on financing networks which had been prepared by First Economics. He outlined the background to the paper and the key issues, which had a focus on the options available for the financing of regulated networks.

The Board agreed that the First Economics paper should be issued publicly for discussion, recognising that the Authority had not yet formed an organisational view on the contents of the paper.

It was noted that the First Economics paper would form the basis of a discussion at a Financing Infrastructure conference, this was being organised by the Authority in January 2011.

13 NI WATER UNDERTAKINGS

The Board noted this paper which provided an update on the latest position regarding NI Water action to address undertakings that it had provided to the Authority.

14 PC13/14

The Director of Water updated the board on the general programme and approach to PC13/14. It was noted that a programme of bilateral engagement and a combined stakeholder workshop had taken place.

The Board discussed stakeholder engagement in the context of broader issues associated with water and sewerage services in Northern Ireland. The need to clearly outline the Authority's position with key stakeholders (particularly in relation to proposals for change) was emphasised.

15 ANNUAL INFORMATION REPORT

Adele Boyle introduced an annual report on the various types of information requests received by the Utility Regulator from November 2009 to November 2010.

Queries from board members were received regarding the extent of media enquiries, the nature of complaints and the location of information requests. It was agreed that further information on the location of requests would be provided to the Board.

16 NIE T AND D RP5 INFORMATION PAPER

The Board noted a presentation from Tanya Wishart which outlined the responses to a recent consultation and provided a timetable for the RP5 price control process.

17 ANY OTHER BUSINESS

There was no further business.

All items of business having been discussed the Chairman brought the meeting to a close at 1.35 p.m.

