

**MINUTES OF THE FORTY-NINTH MEETING OF THE NORTHERN IRELAND
AUTHORITY FOR UTILITY REGULATION (THE 'AUTHORITY') HELD ON FRIDAY,
29 JUNE 2012 AT QUEENS HOUSE, BELFAST**

Present: Peter Matthews Chairman
Philip Johnson
Jim Oatridge
Alan Rainey
Bill Cargo
Clive Elphick
Richard Rodgers
Shane Lynch Chief Executive

In attendance:

Jo Aston Director of Water
Donald Henry Director of Corporate Affairs
Kevin Shiels Acting Director of Retail and Social
Brian McHugh Director of Gas
Tanya Hedley Director of Electricity
Greg Irwin Board Secretary/Communications
Manager
Bill Emery Observer (from Agenda item 7
onwards)
Roisin McLaughlin Gas directorate (for agenda items
11,12, 15 (d) and any other
business)
Richard Hume Gas directorate (for agenda item 11)
Cheryl Snoddy Gas directorate (for agenda item 12)
Kevin O'Neill Electricity directorate (for agenda
item 13)
Colin Broomfield Electricity directorate (for agenda
item 16)

1. APOLOGIES FOR ABSENCE

1.1 None.

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 The following board members declared a potential interest in relation to specific items – Bill Cargo reminded members that he previously had an interest in Islandmagee Gas Storage and Alan Rainey reminded members that he had recently undertaken some work for Mutual Energy. In both instances, the board agreed that Alan did not need to absent himself from the Mutual Energy briefing and Bill did not need to absent himself from the Islandmagee Storage third party access regime discussion. Richard Rodgers declared a potential interest in relation to the Northern Ireland Sustainable Energy Programme and subsequently voluntarily absented himself from the meeting whenever the board came to discuss that item under any other business.

4. MINUTES OF THE PREVIOUS MEETINGS

- 4.1 The minutes of the board meeting on 11 May were agreed subject to several minor amendments.

5. ACTION POINTS FROM THE PREVIOUS MEETING

- 5.1 The Action Points from the previous board meeting on 11 May were reviewed.
- 5.2 Peter Matthews, in his final meeting, thanked the board and staff for their support during his time with the Authority, and wished the organisation well in the future.

6. CHIEF EXECUTIVE'S REPORT

- (a) Shane Lynch presented his report and focused on several issues.

- 6.1 He reflected on the recent meeting with the board of NI Water on PC13, and board members discussed the key issues emerging from the meeting. Peter Matthews also referred to recent correspondence from the Minister for Regional Development on NI Water governance and endorsed further positive engagement with the Minister and his department.

6.2 Progress on the annual electricity tariff review was noted, and board members discussed the impact of the various tariff elements on different groups of consumers.

6.3 He reported that the IT system which enabled unlimited supplier switching had now been implemented.

6.4 Several developments in gas were noted: engagement with BGE (UK) on the price control, the sale of Phoenix Supply Ltd to Airtricity, and, progress on addressing compliance with IME2. The board conducted an initial discussion on recent public debate on shale gas extraction.

6.5 He also outlined key considerations for finalising the Authority's cross utility network price control decision paper. He also informed the board of plans to publish the decision paper.

6.6 The board was informed of a recent health and safety incident, and progress on reviewing the incident.

(b) Donald Henry presented the Finance and Performance report which was considered and approved.

6.7 The board noted the current spend against budget position and the relatively low rate of staff absence. It was also noted that directorate performance review meetings were being planned to review in-year progress.

(c) Donald Henry also presented the draft 2012-13 corporate and reputational risk registers.

6.8 He specifically outlined the background in terms of the Authority's approach to, and process for, managing risk. Proposed changes to the corporate risk register were also identified.

6.9 Board members clarified the context for, the assessment of, and the plan to mitigate specific risks in both registers.

6.10 Following clarification of board members queries, the board approved the corporate and reputational risk registers as presented.

7. REPORTS FROM BOARD SUB-COMMITTEES/ADVISORY GROUPS

Audit Committee

7.1 Jim Oatridge, Chairman of the Audit Committee, presented the report on conclusions of the Committee's work programme in 2011-12. He outlined the background to the report and its factual scope. He drew the board's attention to the issue of the Committee quoracy in the context of scheduled changes to the board later in the year.

Energy BAG

7.2 Philip Johnson, Chairman of the Energy BAG, noted that the BAG had recently met with NIE on the North/South Interconnector issue. He also noted that other issues recently considered by the BAG were on the board agenda.

Water BAG

7.3 Clive Elphick, Chairman of the Water BAG, reported that the BAG had met earlier in the week and had considered PC13 and the recent meeting with the board of NI Water.

Remuneration Committee

7.4 Bill Cargo, Chairman of the Remuneration Committee, reported on a recent meeting of the Committee to consider performance management.

SEM Committee

7.5 Tanya Hedley provided a report on current SEM policy matters. In particular, she drew the board's attention to current issues relating to acquisitions, regional integration, dispatch and scheduling, judicial review proceedings, DS3 and All-Island TUoS. The board briefly discussed SEM governance arrangements. Clarification was also provided on licence changes regarding the acquisition of NIE by ESB.

8. NETWORK FINANCE UPDATE

8.1 It was noted that SSE have purchased Endesa's Irish generation assets.

9. BRIGHT IDEAS

9.1 Peter Matthews identified the potential arising from industry self-regulation schemes.

10. GLOBAL SETTLEMENTS

10.1 Kevin Shiels presented this decision paper, which proposed to allocate all residual electricity volume to the non-half hourly (non-interval) metered demand in Northern Ireland.

10.2 Philip Johnson indicated that the Energy BAG had previously discussed the issue and were content with the proposal outlined in the board paper.

10.3 The board approved the Global Settlements decision paper.

11. ISLANDMAGEE GAS STORAGE – THIRD PARTY ACCESS REGIME

11.1 Richard Hume introduced this paper which sought the board's approval of a recommendation relating to third party access to the proposed Islandmagee Gas Storage Ltd (IMSL) facility. The board was briefed on the background to the third party access regime, the different types of third party access regimes, consultation responses and the rationale for the paper's recommendation.

11.2 The board noted the consultation responses. Philip Johnson indicated that the Energy BAG had previously discussed the issue and was broadly in agreement with the recommendation in the board paper.

11.3 The board approved the decision that third party access requirements do not apply to the IMSL storage facility

12. GAS LICENCE FEE METHODOLOGY

12.1 Cheryl Snoddy introduced this paper, which sought the board's approval for proposed changes to the gas licence fee methodology. As well as annotating the key changes, she also briefed the board on responses to the consultation.

12.2 The board discussion focused on the allocation of costs. The potential for a common set of principles for the allocation of costs in licence fees across the various utility sectors regulated by the Authority was discussed. The exercise of discretion by the Authority on the proportion of costs allocated to licence holders was also discussed.

12.3 The board approved the proposed changes to the gas licence fee methodology, and asked that the executive consider broader issues that were raised during the discussion on this agenda item.

13. RP5 CAPITALISATION PRACTICE

13.1 Kevin O'Neill provided an update on the investigation of NIE's capitalisation practice as part of the RP5 price control for board discussion and guidance.

13.2 The board discussed developments relating to the investigation and took the opportunity to clarify information.

13.3 The board advised that consideration should be given to waiting until the investigation is complete before publishing a final report. In the meantime, providing a public update on the progress of the investigation would be appropriate.

14. REVIEW OF CONSULTATION

14.1 Greg Irwin presented an initial discussion paper on the Authority's review of consultation. The paper provided an overview of consultation practice, sought board views on several issues and outlined the next steps in the consultation review.

14.2 Key issues that arose in discussion included the following: the usefulness of the Authority's existing guidance on consultations, the need to be clear about decision making processes, the value of engagement with different stakeholders and timing issues associated with the publication of consultation documents.

14.3 The board's advice and guidance was noted and the board endorsed the next steps in the review of consultation.

15. PRICE CONTROL UPDATES

(a) RP5

15.1 A verbal update was provided by Tanya Hedley on stakeholder events and engagement with NIE.

(b) PC13

15.2 Jo Aston indicated that assessment of NI Water's business plan was ongoing. The Board briefly discussed issues associated with data reliability and the role of the reporter.

(c) PC15

15.3 Jo Aston indicated that the development of the PC15 approach would be run in parallel with work on PC13.

(d) BGE price control timelines

15.4 The board noted an update on the current position regarding the BGE price control and agreed that an additional board meeting should be convened in August to decide on operating expenditure.

(e) PNGL12

15.5 A factual verbal briefing was provided on the Competition Commission inquiry and the hearing conducted the previous day.

16. GENERATION CAPACITY STATEMENT

16.1 Colin Broomfield briefed the board on the Generation Capacity Statement, which sets out estimates of the demand for electricity and the likely generation capacity that will be in place to meet this demand.

16.2 The board noted the issues raised by the paper. It was also noted that the SEM Committee – which has a locus on security of supply matters - would be discussing the issues raised in the Generation Capacity Statement at a future meeting.

16.3 As a subsidiary item, Paddy Larkin (Mutual Energy) briefed the board on the Moyle cable status following recent outages.

17. PROPOSED SCHEDULE 2013

17.1 Greg Irwin presented the draft schedule of board and board sub-committee groups/ meetings for 2013. Board members noted the schedule and were asked to revert with any comments.

18. ANY OTHER BUSINESS

(a) IME2 compliance

18.1 Brian McHugh introduced this item, and provided background on the issue and the proposed decisions required by the board.

18.2 Roisin McLaughlin presented a range of documents and materials associated with the licence changes, tariff approvals and codes changes necessary to comply with the requirements of IME2. She annotated the key elements of the proposed decisions required and referred as necessary to associated documentation.

18.3 The board took the opportunity to clarify issues related to the requirements of the IME2 directive, safety matters, and specific changes to the codes.

18.4 With all issues clarified, the board approved the proposed decisions as presented, subject to final legal drafting on one code modification.

(b) The Northern Ireland Sustainable Energy Programme (NISEP)

18.5 Donald Henry briefed board members and provided an opportunity for comment on changes that the Authority is proposing to make to the NISEP Framework document. The proposed changes are a consequence of the Authority agreeing to continue to

operate NISEP for a further period and a review of the approval process for NISEP schemes. It was noted that the revised framework document would be the subject of a short consultation later in the summer.

18.6 Board members discussed and agreed the proposed changes, the timing of changes and associated risks.

All items of business having been discussed, the Chairman brought the meeting to a close at 2.15 p.m.