

**SUMMARY OF MINUTES OF THE THIRTY-FOURTH MEETING OF THE
NORTHERN IRELAND AUTHORITY FOR ENERGY REGULATION (the
Authority/NIAER) HELD ON THURSDAY 31 AUGUST 2006**

Authority: Dr. Peter Matthews - Chairman
 Mrs. Joan Whiteside
 Mr. Peter Lehmann
 Prof. John Fitz Gerald
 Mr. John Gilliland
 Mr. Iain Osborne - Chief Executive

In attendance:

Ofreg:

Mr. Dermot MacCann - Deputy Chief Executive
Mr. Mike Lowry
Mr. Brian McHugh
Mrs. Sarah Brady
Mr. Bobby Clulow
Mr. Tony Doherty
Mr. Gerry Donnelly
Mr. Alan Smith
Mr. Albert Shaw
Miss Fiona Gallen

Also in attendance (either for all or only part of the meeting as noted) were representatives from-

- Water Reform Unit, DRD (Agenda 8 only)
- Skyplex Consulting Ltd. (Agenda Item 10 only)

1. APOLOGIES FOR ABSENCE

No apologies

2. DECLARATIONS OF INTEREST

The Chairman informed the meeting that progress was being made on introducing a new format for the register of board member's interests.

3. MINUTES OF THE PREVIOUS MEETING

The minutes were agreed.

4. MATTERS ARISING

NIAER Board Appointment

The Chairman formally welcomed Iain Osborne to the meeting and congratulated him on his recent appointment as a member of the Authority.

5. ACTION POINTS FROM JULY MEETING

The action points from the previous meeting were reviewed.

6. CHIEF EXECUTIVE'S REPORT

A copy of the Chief Executive's Report and an organisation development plan had been circulated to the Board in advance of today's meeting.

7. STAFF REVIEW

The Chief Executive reported that the DID Staff Review was due to be completed by the start of September. The Authority agreed that Ofreg needed extra senior staff to facilitate additional responsibilities and that they were content that a reasonable increase in licence fees was the appropriate way to help finance expansion.

8. WATER REFORM PROGRESS REPORT

A delegation from DRD joined the meeting and briefed the attendees on the progress made to date and the current issues within water reform. The Authority agreed that they wanted to have an input in formulating the licence. They were concerned about the practicality of determining the overall level of water charging and the limitations on their remit as it was proposed that sewerage enforcement would remain with DRD.

ACTION: AGENDA ITEM FOR SEPTEMBER MEETING.

9. PHOENIX NATURAL GAS

(A) Review of Licence

The Authority endorsed the principles and the format for Phoenix refinancing outlined by the Gas team and agreed that they could be used as a basis for the continuing negotiations.

(B) Enforcement Notice

An update on the Phoenix Enforcement Order and information request was given to the Authority. It was noted that Phoenix's annual regulatory accounts were still outstanding and the Authority agreed that this was permissible and reasonable in the circumstances. The Authority also agreed that Ofreg could if possible pursue a resolution by agreement and if agreement is not possible proceed with enforcement.

10. ALL ISLAND ELECTRICITY PROJECT

(A) Presentation on Key Features

The Deputy Chief Executive gave a presentation on the key features of the SEM. The Authority agreed that the legislation should contain some form of minority protection for NI customers.

(B) Progress Report

A briefing paper outlining progress on the main issues had been forwarded to the NEDs before the meeting.

11. NIE ENERGY EFFICIENCY LEVY REVIEW

The Authority endorsed the continuation of the levy and approved an increase in the levy to £7 per customer plus RPI from April 2007.

12. FEMO 2007 – DEBT ISSUE

The Authority agreed that there should be no objections to switch supplier on the grounds of debt and that suppliers should be encouraged to consider a voluntary debt assignment scheme.

13. FEMO 2007 – COSTS OF DELAY

The Chief Executive proposed that the delivery date for FEMO 2007 be delayed to match the new SEM date. He added that Ofreg would not permit NIE to pass through to customers the costs arising from splitting the NIE 2007 project. The Authority backed the proposal.

ACTION: OFREG VIEW TO BE COMMUNICATED TO DETI.

14. SONI PRICE CONTROL

A decision paper on the SONI Price Control had been issued to the attendees. It proposed an extension of the current Price Control as an interim arrangement until SEM implementation, with a reduction to their allowed revenue.

ACTION: OFREG TO SEEK CLARIFICATION ON SONI COSTS.

15. T&D RINGFENCING LICENCE MODIFICATIONS

Alan Smith told the meeting that licence conditions pertaining to the level of gearing and investment grading had been drafted and that these modifications would form part of the final price control proposals. The Authority was content that these robust measures would help to protect NI electricity customers.

ACTION: FINAL PRICE CONTROL PROPOSALS TO BE AGREED WITH NIE.

16. POTENTIAL COMPETITION COMPLAINT

A potential competition complaint was discussed with the Authority for information.

17. AUDIT COMMITTEE BUSINESS

Minutes of Audit Committee

It was noted that the draft minutes should be amended to reflect the make up of the Audit Committee.

2005/2006 Audit Reports

John Gilliland, the Chairman of the Audit Committee reported that Ofreg had received an overall substantial level of assurance in relation to the financial systems of control from Internal Audit.

SEM Costs

John Gilliland requested that the SEM team be asked to provide an estimate of running costs when the SEM is established.

Remuneration Committee

It was noted that the Audit Committee recommended that a Human Resource Committee should be established and that further consideration would be given to this issue when a new board was in place.

ACTION: AUDIT REPORT UPDATE TO BE PROVIDED TO BOARD.

18. ANY OTHER BUSINESS

NIAER Agenda

Future NIAER agendas to be copied to both DETI and DRD for information.

Apologies for Absence – September Meeting

It was noted that Peter Lehmann may be unable to attend the September meeting. The Chairman thanked Peter Lehmann on behalf of the Authority for the valuable contribution he had made during his time as an NIAER board member.

19. ARRANGEMENTS FOR SEPTEMBER MEETING

It was agreed that the next meeting would be held on 21 September in Queen's House and that the dinner would take place the night before.

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