

**SUMMARY MINUTES OF THE ELEVENTH MEETING OF THE NORTHERN IRELAND
AUTHORITY FOR UTILITY REGULATION (THE ‘AUTHORITY’) HELD ON FRIDAY,
8 FEBRUARY AT QUEENS HOUSE, BELFAST**

Present:	Dr Peter Matthews	Chairman
	Mr Clive Elphick	
	Mr Philip Johnson	
	Mr Chris Le Fevre	
	Mr Jim Oatridge	
	Mr Alan Rainey	
	Ms Etain Doyle	
	Mr Iain Osborne	Chief Executive
In attendance:	Mr Dermot MacCann	Director of Electricity
	Mr Brian McHugh	Director of Gas
	Mr Donald Henry	Director of Corporate Affairs
	Mr Greg Irwin	Board Secretary and Communications Manager
	Mr JP Irvine	Head of Legal
	Mr Alan Smith	Principal Economist (for Agenda Item 8)
	Ms Andrea Heaney	Analyst (for Agenda Item 8)

1. APOLOGIES FOR ABSENCE

Jo Aston’s apology was recorded.

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 interests were declared in relation to any Agenda item.

4. MINUTES OF THE PREVIOUS MEETING

The minutes of the Board meeting on 13 December were agreed.

The summary minutes of the Board meeting on 13 December were also agreed.

5. ACTION POINTS FROM THE DECEMBER MEETING

The action points recorded at the last meeting had been circulated to the Board and it was noted that all action points had been completed.

In relation to matters arising, Board members noted the earlier date for the laying of the resource accounts, received clarification on the progress of the Forward Work Plan consultation and discussed briefly the presentation associated with the Sustainability strategy from the December Board meeting. It was clear from the discussion that questions associated with the interpretation of the organisation's statutory duties would have an important bearing on progressing the sustainability agenda.

The Chairman specifically indicated his wish that all action points be recorded in an action list. This specific comment was more widely developed to seek the Executive's commitment to the provision of a weekly bulletin for Board members which would briefly update them on key developments affecting the organisation.

6. CHIEF EXECUTIVE'S REPORT

a) The Chief Executive presented his report focusing on several items in particular.

He provided an update on the Phoenix price control discussions, indicating that the distribution price control determination had not been disapplied. Furthermore, he thanked the Gas Division for its effective work in relation to the price control process. Board members, as part of the discussion on gas matters, also clarified that the issue of storage would be covered in the MoU relating to the All-island Gas Programme.

It was also noted that the SEM Committee had met on 29 January. The Chief Executive briefed Board members on the SEM Committee's discussion on the complaint relating to bidding behaviour. He also spoke more widely about the need to ensure that the Board was appropriately alerted to key issues emerging from the SEM Committee, particularly over important areas of policy or where the matter was contentious. Board members also received clarification from the Director of Electricity regarding the continued need for consultancy support on SEM assignments.

Board members were also briefed by the Director of Electricity and the Head of Legal on the Judicial Review being brought by AES Kilroot of the Authority's decision that the SEM constitutes 'requisite arrangements' under the generation licences. A leave hearing had taken place and the judge had granted AES leave for Judicial Review on 8 grounds. A timetable for the progress of the Judicial Review was outlined to Board members.

An update on progress regarding the Energy Efficiency Levy was also provided. The Chief Executive indicated that the focus of the Authority's work in this area was on the delivery partners with the Authority acting as a conduit – as far as possible – for ensuring that a coherent structure was in place.

A substantial amount of the time allocated for the Chief Executive's report was taken up by discussion on the HR delegation issue. The Chief Executive stated that the absence of a final decision on this issue was creating major organisational problems. Board members were alarmed to learn of the ongoing delay on the resolution of the issue and the effect on staff morale. The Board agreed that the Executive team should begin the process of consulting with staff on the latest draft of the contract. The Board agreed it would consider what action and final steps it would take at its 6 March meeting, taking into account an assessment of the serious consequences which yet further delay might bring about.

In the meantime, the Board was in agreement that the Chairman would contact a senior DFP official, to express concern at the length of time being taken to finalise the HR delegation

Finally, the Chief Executive provided a further brief update on progress regarding Operation Symphony. He indicated that work was being advanced on the mission statement in particular reflecting the views of the Board at its December meeting.

b) The Director of Corporate Affairs presented the Finance report and stated that expenditure was still in line with expectations although a degree of uncertainty still existed in some areas including consultancy and legal spend forecasts. It was noted that recruitment activity was progressing steadily towards the achievement of a complement of 65. Furthermore, it was reported that only one Forward Work Plan target was not achieved at end December. Finally, there was discussion around the risk register and in particular the capture of the risk pertaining to the HR delegation issue.

The Chairman of the Audit Committee, Jim Oatridge, emphasised that the organisation had made significant progress on its risk register and noted that an earlier meeting of the Audit Committee had discussed the HR delegation issue as part of a detailed discussion on the register.

In concluding the discussion, the Chairman - in noting the Finance report - stressed that the HR delegation issue was the most significant risk facing the organisation.

7. REPORTS FROM BOARD COMMITTEES

In advance of the specified agenda item, the Chairman also requested verbal reports from the Board sub-committees that had met the previous day.

Water BAG

Clive Elphick provided a report on the Water Board Advisory Group(BAG) meeting.

He stated that the Water Division had produced a good response to the Independent Water Review Panel's Strand 2 report, which focused on: clarifying the role of the Authority vis a vis the Consumer Council, providing a view in relation to the new Committees recommended by the Report and commenting on the Report's orientation towards metering. The Water BAG also noted the decision by the DRD Minister to accept that NIW customers should not be charged for roads drainage and this

instead should be recharged to the DRD Roads Service. The revised OPEX efficiency target for NIW was also discussed. Finally, the Water BAG held an initial discussion on the Price Review timetable with a decision required on the final timetable at the Water BAG in March.

The Chairman said that he was pleased with the Authority's response to the Strand 2 report and he felt that the contribution demonstrated the value of the organisation's cross utility focus.

Energy BAG

Chris Le Fevre outlined key issues discussed at the Energy BAG.

On the Gas side, there was a discussion on the All-island Gas Market and the scoping of the work required. The agenda item on Phoenix Connection incentives led to the suggestion of a more straightforward approach towards the issue. Energy BAG members were impressed by a paper presented on SONI Price controls which would be discussed at the Board meeting later. There were presentations to Energy BAG members on All-island transmission issues.

Audit Committee

Jim Oatridge provided a report on this Committee.

He reiterated the view that the risk register had improved substantially and the Audit Committee reviewed the corporate risk register, the changes proposed and the likely key risks for 2008/09. The progress with Internal Audit recommendations was also reviewed and there was also recognition of improvement in this area. There were representatives from the Northern Ireland Audit Office (NIAO) in attendance and the Audit Committee took an opportunity to discuss the audit programme with NIAO officials. It was noted that the Register of Contracts was now in an acceptable form. Audit Committee members reviewed the Scheme of Delegation and made suggestions to this document before its submission to the Board. Finally, there was some discussion on the report back on Audit Committee views on the 2008/09 draft Budget. Board members enquired about the likely impact of an increase in expenditure in 2008/09. The Audit Committee had sought clarification on

the impact of increased expenditure on stakeholders and it was noted that a final draft of the Budget would be presented to the Board for decision in March.

Remuneration Committee

Etain Doyle provided a report of the last meeting of the Remuneration Committee which took place in December.

It was noted that the Committee considered the Chief Executive's salary award and agreed an award in the context of Civil Service rules.

There was a discussion on the broader remuneration issues in anticipation of the necessary HR delegation. She noted that a Terms of Reference had been drafted to provide guidance on the Chief Executive's pay and that of senior executives.

On a query from the Chairman, the Director of Corporate Affairs indicated that the Terms of Reference would take account of benchmarking issues.

8. SONI PRICE CONTROL

Alan Smith and Andrea Heaney presented this paper. It was noted that the Energy BAG had also previously commented on this paper with key issues being the development with Eirgrid of an all-island incentive mechanism and the ownership of Castlereagh House.

Board members discussed and clarified the situation regarding Castlereagh House, the question of the incentive mechanism, the small company premium and the level of gearing.

Firstly, the Board, after clarifying the situation and understanding the recorded position of the Land Registry, noted that Castlereagh House was legally owned by NIE. As an adjunct to the price control paper (which focus was not compliance), the Board noted that transfer of Castlereagh House should have happened at the point of business separation and that such transfer should now be made.

Furthermore, the Board asked that any incentive mechanism for SONI and Eirgrid should be coordinated. The Board was keen that such incentive mechanisms should be in place at the earliest date. Finally, the Board concurred that it should keep itself apprised of possibly changes in regulatory precedents on the Small Company Premium and that the decision paper (in the section on WACC) should take account of current practice.

9. ALL ISLAND GAS PROJECT MoU

The Director of Gas presented this draft MoU which had previously been circulated to Board members for comment and had been discussed at the Energy BAG.

Most of the Board members, comments concentrated on ensuring that the intended outcomes of any collaboration would be delivered on time. Board members discussed whether or not this involved setting a date for the beginning of implementation of the MoU, or setting a discrete date for full implementation of the MoU, or both.

After some discussion of the various options Board members agreed the draft MoU with a requirement that a commitment is included for a target completion date of substantial elements of the project in 2010. .

10. ASSET SECURITY/HEALTH AND SAFETY

The Director of Gas introduced this paper for discussion.

The paper generated significant discussion. A central feature of the discussion was the extent to which the paper had provided clarity and assurance on the Authority's statutory functions (as economic regulator) as completely distinct from its duties in relation to health and safety issues. Board members recognised that the paper had sought to bring clarity regarding the Authority's responsibilities. It was also evident that some Board members felt that there was still some confusion as to the parameters of the Authority's role – though all members were clear that it was not the Utility Regulator's responsibility to be the primary health and safety regulator in any of the regulated industries.

A discussion ensued on how the Authority should link with organisations in the asset infrastructure/health and safety field. The tenor of this discussion tended to focus on the need to formalise relationships with specific organisations and the extent of the links.

The Board concluded in summary that the Authority had a duty, when exercising its regulatory functions, to ensure that utility companies can deliver on their health and safety responsibilities. It was also agreed that the Authority should seek to formalise its relationship with the Health and Safety Executive and think about the nature of its links with CPNI and DETI in this area.

11. CORPORATE COMMUNICATIONS PLAN

This discussion paper was presented by the Board Secretary/Communications Manager.

The Board, in recognising that the paper provided some direction to the organisation's communications function, took the opportunity to contribute to the Plan's further development.

Specifically, Board members wondered how the organisation could use its communications activities to increase its influence. It was suggested that building trust in the Authority was an essential part of achieving influence. Some Board members felt that there needed to be a greater emphasis placed on innovation and some specific suggestions were made on the use of certain communications channels such as workshops. Several Board members made reference to the need to enhance the organisation's website.

The Chairman brought the discussion to a close by stating that Board members' comments should help provide further direction on the development and implementation of the Communications Plan.

12. INDEPENDENT REVIEW OF WATER: STRAND 2 REPORT

There was no discussion on this item having been addressed earlier in the Agenda under the Water BAG report.

13. UPDATE ON AES KILROOT

This item was also addressed within the Chief Executive's report and no further discussion took place.

14. A. MUTUALISATION

B. PHOENIX PRICE CONTROL

The Director of Gas provided a brief update on further progress on the mutualisation issue and noted the forthcoming discussions with the Phoenix and the Consumer Council on domestic prices.

All items of business having been discussed the Chairman brought the meeting to a close at 12.45pm.