

**MINUTES OF THE THIRTIETH MEETING OF THE NORTHERN IRELAND AUTHORITY
FOR UTILITY REGULATION (THE 'AUTHORITY') HELD ON FRIDAY, 12 MARCH 2010
AT QUEENS HOUSE, BELFAST AT 10.00 AM**

Present:	Mr Peter Matthews	Chairman
	Mr Jim Oatridge	
	Mr Philip Johnson	
	Mr Alan Rainey	
	Ms Etain Doyle	
	Mr Clive Elphick	
	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 Dermot MacCann	
Mr Shane Lynch	Director of Electricity
Mr Brian McHugh	Director of Gas
Mr JP Irvine	Head of Legal
Mr Kevin Shiels	Acting Director of Retail
Mr Greg Irwin	Board Secretary and Communications Manager
Mr Alan Craig	Water Directorate (for agenda item 10)
Mr Michael Campbell	Retail Directorate (for agenda items 11 and 12)
Ms Nicola Sweeney	Retail Directorate (for agenda items 11 and 12)
Mr Malcolm Rowley	Gemserve consultant (for agenda item 12)
Mr Paul Bell	Electricity Directorate (for agenda item 15)
Mr Kenny Dane	Electricity Directorate (for agenda item 15)
Mr Colin Broomfield	Electricity Directorate (for agenda item 15)

1. APOLOGIES FOR ABSENCE

None

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 MEETING

The minutes of the board meeting on 12 February were agreed subject to two minor amendments.

The Board briefly reflected on its earlier workshop on board effectiveness.

5. ACTION POINTS FROM THE PREVIOUS MEETING

The Action Points from the previous meeting were reviewed.

It was agreed that the potential for a meeting between the Authority and Ofgem in London should be explored.

6. CHIEF EXECUTIVE'S REPORT

(a) The Chief Executive presented his report, and drew the Board's attention to several items in particular.

The Chief Executive and the Board discussed an update on PC10. Board members also reflected on a briefing on NI Water procurement issues, by Laurence McKenzie (Chief Executive of NI Water), prior to the commencement of the board meeting.

He also clarified for the Board the issues surrounding retail competition in gas.

A brief discussion also took place on the outlook for competition in relation to the electricity household supply market.

The Chief Executive provided board members with a report on the European Regulator's Group on Electricity Gas General Assembly which took place on 2 March, which he attended along with the Chairman.

(b) The Director of Corporate Affairs presented the Finance and Performance report for consideration and approval. Budget variances were explained and discussed, progress against Forward Work Plan targets was clarified, and the risk register was considered.

Board members clarified spending variances. A brief discussion also took place on research and development spending. A few Forward Work Plan items were also discussed. A specific clarification was also provided in relation to an electricity procurement workstream.

7. REPORTS FROM BOARD SUB-COMMITTEES

SEM Committee

It was agreed that there was nothing further to add to the written update on the SEM Committee, which was contained within the Chief Executive's report.

8 NETWORK FINANCE

A clarification was sought on loan provisions to a specific utility company.

9 BRIGHT IDEAS

It was noted that the Guide to Regulation was due to be sent to the printers before the end of March. There was also some discussion on a recently published report on utility infrastructure on the island of Ireland.

10 SCHEME OF CHARGES

The Director of Water introduced this item, which updated the Board with the latest information available in relation to the NI Water Scheme of Charges and sought approval of

a delegated authority to the Chief Executive and Director of Water to sign off the final Scheme.

Board members raised several questions and points of clarification. These related to: the basis for the Retail Price Index assumption, the auditor's report received with the Scheme of Charges submission, connection charges, sewerage charges, the impact of large incidence effects on any customer groups, and the impact of the Streetworks Order.

At the conclusion of the discussion, and having received clarification on the Board's authority to delegate, the Board approved the delegation authority to the Chief Executive and the Director of Water to approve the final Scheme of Charges.

11 NIE ENERGY PRICE CONTROL

The Acting Director of Retail presented this paper, which sought the Board's approval of the key decisions in relation to the NIE Energy Supply price control for 2010-11. In particular, he outlined the rationale for the key decisions proposed, also making reference to comments that had been received during the consultation.

Board members raised questions on several issues. The rationale for the timing of the price control period was explained. Costs for bad debt provision were also clarified. A question relating to costs for domestic competition was also addressed. Finally, the profit margin provided for in the price control was discussed and explained.

Following the discussion, the Board approved the decisions for allowed operating expenditure and the margin for NIE Energy Supply in relation to the 2010-11 price control period.

12 ENDURING SOLUTION STAGE 3 INVESTMENT CASE

The Acting Director of Retail introduced this paper relating to the Enduring Solution project, and the requirement of Board approval for cost recovery via regulated tariffs by NIE and NIE Energy Supply to recover the capital cost of the project.

The paper specifically sought the Board's approval to delegate to the Chief Executive the authority to approve key items outlined in the paper, when the final project costs become known in April.

He then introduced Malcolm Rowley, who briefed the Board in relation to the key items on which approval was being sought.

A significant discussion ensued, in which board members were keen to minimize the costs of the project to the consumer. The discussion tended to focus on the appropriateness of incentive arrangements in place relating to cost base of the project. Board members also questioned the System Integrator (SI) costs but agreed that, as these were subject to quality assurance, the recommendation of Gemserv should be accepted once the SI costs had been finalised. The contingency allowance for the project was also discussed. The depreciation period was also considered. The Board accepted both of these elements as outlined.

The Board noted the considerable benefits associated with the proposed investment. In this respect the Board specifically noted the following factors supporting the need for the investment: ensuring compliance with EU Directives in respect of business separation and customer switching, the fact that the existing customer billing system would also be obsolete and unsupported within 2 years, facilitating customer switching and providing the necessary infrastructure for smart metering should that be introduced., and finally, the reality the 'do-nothing' option would amount to 80% of the costs associated with the proposed investment case. The Board also received assurances on the draft contract for the project regarding appropriate milestone payments, penalty clauses, and retention clauses.

At the culmination of the discussion, the Board agreed to delegate the authority to approve: the final investment case – provided costs do not exceed the limits set out in the paper, the methodology for the allocation of costs between NIE and NIE Energy Supply, and the detailed application of regulated costs recovery arrangements – including any incentive arrangement. The Board felt it would be inappropriate for the Authority to approve the appointment of the SI, as proposed in the paper. The Board, in agreeing the delegated authority, indicated that it expected to see incentive arrangements that went further than those proposed, and which minimized the risks for consumers. Finally, the Board also requested that an update on the progress of the project at the next board meeting.

12 BUDGET 2010-11

The Director of Corporate Affairs presented the draft budget for 2010-11. He outlined the key features of the draft budget in relation to comparison with the previous year (which was noted as a 9% reduction on the original 2009/10 budget), and allocations in relation to salaries, programme costs. An overview of all other significant costs and their drivers was also provided.

The Chairman sought the views of the Chairman of the Audit Committee, Jim Oatridge, which had scrutinized the draft budget at its previous meeting. The Audit Committee Chairman summarized the discussions of the Audit Committee on the budget. He noted that the Audit Committee was content to recommend the draft budget for approval by the Board.

A specific query was addressed on licence fees. The views of Executive Directors were sought on the proposed budget allocation as it affected their part of the organisation.

The Board concluded its discussion by approving the draft budget for 2010/11.

13 FIRMUS ENERGY MARKET DEVELOPMENT REVIEW

The Director of Gas introduced this paper, which proposed (subject to responses to 'minded to' paper) to replace firmus energy's interim market development costs (excluding staffing) in the domestic owner occupier and small industrial and commercial markets, with a per

connection allowance determined ex ante and applied ex post based on cumulative connections for the period 2010-13.

The Board agreed that market development allowances should be replaced with a determination based on a per connection allowance so that connections are made on an economic and efficient basis and revenue covers the variable(service and meter) and allocated fixed costs of connection.

14 GENERATING UNIT AGREEMENT (GUA) CANCELLATION

The Director of Electricity introduced this item. It was noted that a briefing on the issue had also been provided to board members the previous day.

A presentation was made to the Board which outlined responses to the earlier consultation paper, provided an economic analysis and highlighted energy policy considerations.

Board members took the opportunity to ask questions and seek clarification during the presentation. This included queries about the contract value, the nature of the contracts, diversity of supply, and the assumptions made in relation to the forward prices of fuel. The Board concluded its discussion and delegated responsibility to the Executive team to publish a 'minded-to' paper for a 5-week consultation on 23rd March, proposing the cancellation of two GUAs for the AES Kilroot coal/oil fired units, and continuing to monitor the economic value of the remaining 8 GUAs. It was noted that the issue of GUA cancellation would also be raised at the next SEM Committee meeting. Finally, it was agreed that a board meeting would be convened on 28 April to review consultation responses and consider the matter further.

15 INVESTIGATION INTO ELECTRICITY TARIFFS

The Board was content with briefing received and the remedies proposed in the paper presented.

16 STAKEHOLDER ENGAGEMENT

The Board Secretary introduced this paper, which outlined a general approach to stakeholder engagement. A specific comment emphasised the need to be 'customer-led' in any engagement. Overall, the Board was content with the approach outlined.

17 GEOGRAPHIC AVERAGING OF CHARGES

It was agreed that discussion on this item would be deferred to the next board meeting.

18 NI WATER ENFORCEMENT

The Director of Water provided an update on enforcement matters. Given the Board's earlier discussion on procurement issues at NI Water, board members focused their comments on progress on the undertakings that were currently in place to improve systems at the water company. The Board affirmed its position that further progress was required by NI Water before it would release the company from its undertakings.

19 ANY OTHER BUSINESS

- Board members noted that guidance on year-end accounting matters would be circulated and that the Head of Finance and Admin would provide an update on tax issues.

All items of business having been discussed the Chairman brought the meeting to a close at 1.55 p.m.