

**MINUTES OF THE THIRTY-NINTH MEETING OF THE NORTHERN IRELAND
AUTHORITY FOR UTILITY REGULATION (THE 'AUTHORITY') HELD ON THURSDAY,
13 MAY 2011 AT QUEENS HOUSE, BELFAST AT 11.45 AM**

Present: Mr Peter Matthews Chairman
Mr Richard Rodgers
Mr Jim Oatridge
Mr Philip Johnson
Mr Alan Rainey
Ms Etain Doyle
Mr Chris Le Fevre
Mr Bill Cargo
Mr Clive Elphick
Mr Shane Lynch 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 Brian McHugh Director of Gas
Ms Tanya Wishart Acting Director of Electricity
Ms Martina Maguire Legal department
Mr Greg Irwin Board Secretary and
Communications Manager
Mr John Mills Water directorate
Mr Paul Stewart Water directorate
Mr Alan Craig Water directorate (for agenda item
10)
Sarah Brady Social and Environmental Manager
(for agenda items 16 and 17)
Alison Farr Social and Environmental branch (for
agenda item 16 and 17)

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

None.

4. MINUTES OF THE PREVIOUS MEETINGS

The minutes of the board meeting on 10 March were agreed.

5. ACTION POINTS FROM THE PREVIOUS MEETING

The Action Points from the board meeting on 10 March were reviewed.

Board members discussed correspondence with DWI regarding the issue of river abstraction and bankside storage.

6. CHIEF EXECUTIVE'S REPORT

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

An update on proposed modifications to NI Water's licence, to reflect the Memorandum of Understanding with the Department for Regional Development, was provided. Board members discussed this specific issue as well as the broader questions relating to water and sewerage services in Northern Ireland.

Board members also received a briefing on the NIE T and D price control (RP5). Queries about the information provided by NIE T and D (as part of the price control process), stakeholder engagement and the overall timetable, were addressed.

A discussion took place on domestic gas prices. Board members discussed the impact of wholesale purchasing arrangements. Comparative gas consumer prices across the UK and Ireland were also featured in discussion. The level of consumer switching was also clarified and there was an update on plans to enable switching by pre-payment consumers.

The Chief Executive briefed board members on engagement with Ofgem regarding UK representation at the Agency for the Co-operation of Energy Regulators (ACER).

A report on the Authority's Academic Panel was also provided. Board members discussed opportunities that could arise from engagement with the panel. It was agreed that board members would be provided with dates for future meetings of the panel.

(b) The Director of Corporate Affairs presented the Finance and Performance report for consideration and approval. A report on the 2010-11 budget outturn and an update on the budget position for the current year was provided. A discussion on the risk register led to a suggested amendment to the document.

7. REPORTS FROM BOARD SUB-COMMITTEES/ADVISORY GROUPS

Audit Committee

The Chairperson of the Audit Committee, Jim Oatridge, provided a report on the committee's last meeting, on 12 May. Key issues covered were the review of the risk register, the annual resource accounts, the Statement of Internal Control, reviews carried out by Internal Audit and the 2012 audit plan.

Remuneration Committee

The Chairperson of the Remuneration Committee, Chris Le Fevre, provided a report on the committee's last meeting, on 12 May. The Committee discussed remuneration arrangements and policy at the meeting.

Energy BAG

The Chairperson of the Energy BAG, Philip Johnson, noted that the Energy BAG had met twice since the last report to the board. He noted that the BAG discussions had focused on IME3 and retail competition. He also reported that the Energy BAG had recently met non-executive board members of Phoenix Natural Gas, following a request for the meeting from that company.

Water BAG

The Chairperson of the Water BAG, Clive Elphick, provided a report on the group's last meeting, on 14 April. He indicated that the group discussed the duration of PC13. Other key items discussed by the BAG were on the board meeting agenda.

Cross Utility BAG

The Chairperson of the Cross Utility BAG, Etain Doyle, provided a report on this group's last meeting, on 12 May. Much of the BAG agenda focused on the draft Project Zeus consultation paper and the cost of capital. The BAG also discussed emergency planning and reviewed a discussion paper on the Mid Term review of the Corporate Strategy.

SEM Committee

The Acting Director of Electricity provided a high level update on current SEM policy matters, identified key consumer risks and identified key policy decisions to be made by the SEM Committee over the coming months. In particular, she briefed the Board on the progress of the judicial review in relation to the Irish carbon levy, regional integration and certification obligations arising from the EU IME3 directives. A specific query about UK electricity market reform was also addressed. The Chairman also congratulated Alan Rainey, who will assume the role of Chairman of the SEM Committee from its next meeting.

8 UPDATES

a) Network finance

The Board discussed the financing and governance arrangements of a specific utility company. It was agreed that the Board should meet with the non-executives of the utility company board at an appropriate time.

b) NI Water investigation update

The Director of Water provided a report on engagement with NI Water and progress on delivering actions in the investigation report's Recovery Action Plan. The Board discussed options for ensuring that NI Water delivered on actions in the Recovery Action Plan. There was consensus that it was important that there was transparency on progress against the Recovery Action Plan. It was agreed that a discussion of the options, for obtaining the

necessary assurance on the delivery of the Recovery Action Plan, should be delegated to the Water BAG for consideration at its June meeting.

9 BRIGHT IDEAS

It was noted that the project with scouting organisations continued to make progress.

10 NI WATER UNDERTAKINGS

The Director of Water provided an update in relation to undertakings. The Board briefly discussed the recommendations in the paper, which were based on the Authority's analysis of the evidence provided by NI Water.

The Board recognised that data quality issues are being addressed by NI Water, although further progress is required. It was agreed that NI Water should be released from Undertakings E, F and G only, but that there would be a deferral of release from Undertakings A, B, C, D and H.

11 PNGL PRICE CONTROL

The Director of Gas presented a paper on the process for developing the next price control review for Phoenix Natural Gas Limited (PNGL).

Board members conducted a significant discussion on the paper. Issues discussed included: opex and capex allowances, the weighted average cost of capital and incentivisation arrangements.

Board member comments were noted. Additionally, it was agreed that further analysis would be carried out on the key issues discussed, and that papers on each would be presented to the June meeting of the Energy BAG.

12 APPROACH TO BGE (NI) PRICE CONTROL

The Director of Gas presented a discussion paper on the approach to the BGE (NI) price control (including a provisional timetable for review).

Board members discussed the cost of capital, wider economic issues associated with the price control and BGE (NI)'s licence.

The Board endorsed the overall approach outlined in the paper.

13 CAG UPDATE

The Director for Gas provided an update for board members on recent developments relating to the Common Arrangements for Gas project (CAG). Board members clarified items of detail around the single entry point at Moffat, engagement with the wider gas industry on CAG and the decision on payments relating to access to the second gas interconnector.

14 PC10 REVIEW ARISING FROM PE BUDGET

John Mills provided a briefing to the board on the process to manage the changes to the NI Water Capex programme as a result of a reduction in public expenditure over the period 2011-15. Board members briefly discussed the profile of the projected budget and construction output price inflation.

15 IME3 DIRECTIVE IMPLEMENTATION

Mary Jones provided a background briefing and assessed the impact of the two Directives and three Regulations commonly known as the 'Third Package' or 'IME3'. Board members discussed the requirement for regulators to explain the reason for decisions, appointments to the boards of regulators and the certification process.

16 NISEP

Sarah Brady and Alison Farr provided a report on the main outcomes and achievements for the 2009/10 schemes funded through the Northern Ireland Sustainable Energy Programme (NISEP). An overview of the schemes approved and now in progress, was also provided for 2011-12. The Board discussed the programme focus on helping vulnerable consumers.

17 RO ANNUAL REPORT

Sarah Brady outlined the key highlights in the Renewable Obligation Annual Report 2009-10. Two specific queries were addressed: the number of generating stations accredited to claim for Renewables Obligation Certificates, and the wider question of an environmental summit for Northern Ireland.

18 ANY OTHER BUSINESS

Water BAG – it was agreed that an alternative date for the Water BAG on 6th September would be identified.

All items of business having been discussed, the Chairman brought the meeting to a close at 3.20 p.m.

