

**MINUTES OF THE THIRTY-FOURTH MEETING OF THE NORTHERN IRELAND
AUTHORITY FOR UTILITY REGULATION (THE 'AUTHORITY') HELD ON THURSDAY,
14 OCTOBER 2010 AT QUEENS HOUSE, BELFAST AT 9.00 AM**

Present: Mr Peter Matthews Chairman
Mr Jim Oatridge
Mr Philip Johnson
Mr Alan Rainey
Mr Clive Elphick
Mr Chris Le Fevre
Ms Etain Doyle
Mr Iain Osborne Chief Executive

In attendance:

Ms Jo Aston	Director of Water
Mr Donald Henry	Director of Corporate Affairs
Mr Brian McHugh	Director of Gas
Mr Shane Lynch	Director of Electricity
Mr Kevin Shiels	Acting Director of Retail
Ms Martina Maguire	Legal department
Mr Greg Irwin	Board Secretary and Communications Manager
Mr Alan Craig	Water Directorate (for agenda items 10 and 14)
Ms Sarah Brady	Social and Environmental Manager (for agenda item 16)

The Chairman, at the commencement of the meeting, congratulated the Chief Executive on his appointment as the Group Director for Regulatory Policy at the Civil Aviation Authority.

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 MEETINGS

The minutes of the board meeting on 8 September were agreed subject to two minor amendments.

5. ACTION POINTS FROM THE PREVIOUS MEETING

The Action Points from the board meeting on 8 September were reviewed.

Board members received an update on the Financing Infrastructure conference being planned for 12 January 2011.

6. CHIEF EXECUTIVE'S REPORT

(a) The Chief Executive congratulated the Chairman on the recent award of the Dunbar Medal by the European Water Association.

Board member comments on water issues focused on PC10. A specific query about the Memorandum of Understanding with the Department of Regional Development was addressed. Developments relating to water reform in the Republic of Ireland were also discussed.

An update was provided on the bid seeking the Authority's support regarding electric vehicles. Board members noted that another bid to support the development of electric vehicles in Northern Ireland was being advanced. Issues associated with the implications of two bids being advanced, the impact on consumers and the risk of the market development benefits accruing to the project promoter were discussed. There was agreement that the bid requesting the Authority's support could be endorsed, subject to: assurances being gained on non-discrimination, certain project management arrangements and that energy efficiency contributions by the project promoter would be managed appropriately.

The Chief Executive also briefed the board on potential developments relating to the ownership of a regulated utility company.

The Board noted the update on Project Arc, which was commissioned by the SEM Committee.

A query on the Authority's engagement with Ofgem was addressed. Board members also discussed the Authority's representation at the Agency for the Co-operation of Energy Regulators (ACER).

The Board noted that gas extensions to Ballyclare and Warrenpoint (in the firmus licence area) had been approved.

Following a briefing from the Chief Executive, the Board agreed to approve the Authority's sponsorship of the Infrastructure Forum for a second year.

(b) The Director of Corporate Affairs presented the Finance and Performance report for consideration and approval. The outcome of the mid-year review of the budget was also endorsed subject to any further movements that may yet materialize in areas where detailed work plans had yet to be finalised. Budget variances were noted and explained.

In the context of the report against Forward Work Plan targets, board members discussed progress in relation to its regulation of water and sewerage related work. A request was also made for the Energy Board Advisory Group (the Energy BAG) to consider energy ratings schemes.

Key risks were reviewed. An update on progress at addressing a specific risk, which was classified as a high risk, was also provided.

There was a discussion on the implications arising from the Chancellor's Comprehensive Spending Review announcement. It was agreed that the Finance and Performance report at the next board meeting would also cover the implications of the spending review announcement.

7. REPORTS FROM BOARD SUB-COMMITTEES/ADVISORY GROUPS

SEM Committee

The Director of Electricity provided a written report on this item. The Chairman of the Energy BAG, Philip Johnson, indicated that the group had considered this report at its meeting the previous day. He stated that the Energy BAG was supportive of the process being advanced for ensuring that Authority board members were briefed on SEM matters.

Five current SEM matters were highlighted. Board member comments focused on two issues in particular - the Irish Carbon Levy and the Review of Market Power and Liquidity.

Energy BAG

The Chairman of the Energy BAG, Philip Johnson, indicated that there had been an extraordinary meeting of this group the previous day to discuss the issue of certification (by the regulator of the unbundling solution adopted in the context of IME3 implementation).

Remuneration Committee

The Chairman of the Remuneration Committee, Chris Le Fevre, said that the committee had met the previous day, and had discussed pay issues including the pay framework and succession planning.

Separately, the Chairman of the Authority board provided a high level summary of the proposed approach for the recruitment of the new Chief Executive which had been agreed by board members following an earlier discussion.

8 NETWORK FINANCE

The Board noted the earlier briefing provided by the Chief Executive regarding a potential change of ownership affecting a regulated utility company.

9 BRIGHT IDEAS

The Chairman noted that the Guide to Regulation was now available.

He also updated board members on the development of a project with scouting organisations.

10 PC10 AND MOU WITH DRD

The Director of Water introduced this paper. She outlined the background to the paper and the current position regarding discussions with DRD and NI Water.

The ensuing discussion by board members focused on the next steps in terms of putting the MOU into practice. In that context the Chairman advised the board that the DRD Permanent Secretary had contacted him to advise that the Department was also happy to agree the MOU. The next steps included signing formalities and legal advice on licence changes.

Concluding the discussion, the Board noted and accepted the basis on which NI Water has indicated its acceptance of PC10. The Board also approved the MoU between the Authority and DRD, together with the written agreement referred to in the MoU, and delegated to the Chief Executive the power to sign these documents. Finally, the Board agreed that the Authority should now propose licence amendments to give effect to the MoU process.

11 FIRMUS ENERGY SUPPLY AREA: OPTIONS FOR RELINQUISHING EXCLUSIVITY

The Director of Gas introduced this paper which presented options for opening the market for competition in the firmus energy supply area.

The Chairman of the Energy BAG, Philip Johnson, indicated that the group had considered the issue at its last meeting. He said that the Energy BAG's advice had been incorporated into the paper presented to the board for consideration.

Board members discussed incentive risks for firmus and the potential for attracting new suppliers under a consolidated timetable. There was agreement that any lessons arising from the opening of the market in 2012 should be reflected upon for 2015.

The Board endorsed the option which would involve: (1) opening the market for all large industrial and commercial customers across all the ten towns in October 2012, and, (2)

opening the market for all domestic and small industrial and commercial customers across all the towns in April 2015. It was noted that both of these decisions and the associated licence modifications would be subject to statutory public consultation.

12 SECURITY OF SUPPLY PAYMENTS IN CAG

The Director of Gas briefed the Board on the security of supply payments issue which has been raised in the context of CAG.

Board members discussed both the principles and mechanisms for paying for the use of Interconnectors. The impact of this issue for progressing CAG was also discussed.

The Board confirmed its support for the position taken on the security of supply payments by the executive and re-iterated its support for the CAG project. There was some concern that security of supply payments had only recently been identified as an issue, despite the considerable work that had been undertaken as part of the CAG project to date. The Board agreed that, while the issue was not central to CAG, work should continue on finding a resolution as part of the CAG workplan. The executive was asked to work with the Commission for Energy Regulation to find a way forward.

13 PUBLICATION OF THE FORWARD WORK PLAN 2011-12 FOR CONSULTATION

The Director of Corporate Affairs presented a draft of the Forward Work Plan. He noted comments that had been made earlier in the board meeting, by board members, relating to budgetary issues and around specific workstreams.

Board members discussed the resourcing of the plan. A general point which suggested that the plan should draw out elements of innovation more clearly was also noted. Specific wording suggestions were also noted. It was noted that the draft Budget would be finalized and would be subject to Board approval later in the financial year.

The Board approved the draft FWP and the timetable for the publication of the draft plan was outlined. Board members agreed to forward any further and specific comments within a week.

14 ENFORCEMENT UNDERTAKINGS

Alan Craig outlined the background and key issues arising from this information paper.

Board members sought clarification on the progress made by NI Water to address the undertakings that had been made. While noting that NI Water continue to make progress on data management, the Board agreed that it was not appropriate for the undertakings to be seen as open-ended in time. On that basis, it was agreed that the next meeting of the Water BAG should be provided with a draft enforcement order.

The Board also discussed the water company's progress in addressing procurement deficiencies, and it was agreed the Board should further discuss procurement as a discrete agenda item.

15 DOMESTIC ELECTRICITY MARKET OPENING

An update on domestic market opening was provided by the Acting Director of Retail.

Board members made a number of comments and queries which broadly related switching systems and behaviour.

The Board noted, at this stage, that arrangements to provide supplier choice for domestic electricity customers appeared to be operating broadly satisfactorily, with specific improvements being made where the need for them appears.

16 INCENTIVISING THE DEVELOPMENT OF RENEWABLE GENERATION

Sarah Brady introduced this paper, the purpose of which was to inform the board about the conclusions of a joint study between DETI and the Authority on supporting the development of renewable generation in Northern Ireland.

The Board discussed the relative merits of the various support mechanisms. A query about the approach to renewable support mechanisms in the Republic of Ireland was also addressed. Some discussion also took place in respect of electricity network constraint costs

affecting the development of renewable generation. Finally, the Board also conducted a discussion on incentives to facilitate the achievement of renewable targets. The Director of Electricity undertook to provide the board with a recent article explaining how renewable targets could be achieved.

Separately, the Chairman asked that he be provided with an update on efforts to provide consumers with environmental information in their bills.

17 ANY OTHER BUSINESS

There was no further business.

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

