

**MINUTES OF A SPECIAL MEETING OF THE NORTHERN IRELAND AUTHORITY FOR
UTILITY REGULATION (THE 'AUTHORITY') HELD ON THURSDAY,
23 AUGUST 2012 IN QUEENS HOUSE, BELFAST AT 10.30AM**

Present:	Bill Emery	Chairman
	Philip Johnson	
	Jim Oatridge	
	Bill Cargo	
	Clive Elphick	
	Richard Rodgers	
	Shane Lynch	Chief Executive

In attendance:	Jo Aston	Director of Water
	Donald Henry	Director of Corporate Affairs
	Kevin Shiels	Acting Director of Retail and Social
	Brian McHugh	Director of Gas
	Tanya Hedley	Director of Electricity
	Greg Irwin	Board Secretary/Communications Manager
	John Cooper	Wragge and Co (for agenda item 4 only)
	Roisin McLaughlin	Transmission manager, Gas directorate (for agenda items 5 and 6 only)
	Linda Bierne	Analyst, Gas directorate (for agenda items 5 and 6 only)
	Graham Craig	Analyst, Gas directorate (for agenda items 5 and 6 only)
	PJ McCloskey	Analyst, Electricity directorate (for agenda item 8 only)

1. APOLOGIES FOR ABSENCE

1.1 Alan Rainey.

2. FIRE DRILL

2.1 The board members were informed of the evacuation procedures which apply at Queens House in the event of a fire.

3. DECLARATIONS OF INTEREST

- 3.1 Bill Cargo and Richard Rodgers declared a potential interest in relation to the Competition Commission next steps item (associated with the Phoenix Natural Gas price control determination) and voluntarily absented themselves from the meeting whenever the board discussed that agenda item.

4. COMPETITION COMMISSION – NEXT STEPS

- 4.1 The board received a presentation from Brian McHugh on the Competition Commission's provisional determination on the Phoenix Natural Gas price control. The presentation outlined the key elements of the Competition Commission's provisional determination, plans for submitting a response by the Authority and the associated timetable for this.
- 4.2 A discussion ensued on the content of the provisional determination and the Authority's planned response. The balance struck by the Competition Commission in its provisional determination, between harm to existing/potential consumers versus the benefits of further investment in the gas network, was discussed. Board members also discussed the key elements of the Authority's response in the context of the public interest concept.
- 4.3 John Cooper provided a briefing on legal aspects of the provisional determination. Board members took the opportunity to clarify several legal aspects of the Competition Commission process.
- 4.4 In concluding the discussion, Bill Emery clarified the timing for submissions from the Authority and its legal representatives, as well as the date for the next Competition Commission hearing. There was also agreement from the board that, if the Competition Commission requested an extension to the timing for concluding its deliberations, the Authority would respond in the affirmative.

5. MUTUALISATION OF BGE (UK) TRANSMISSION ASSETS

- 5.1 Roisin McLaughlin introduced this item, which provided an update on discussions with BGE (UK) regarding the potential benefits to consumers of refinancing its transmission assets in Northern Ireland.
- 5.2 Board members sought clarification on previous engagement with BGE, and communication on the potential for mutualisation. There was also discussion on the current BGE position and the company's disposition towards mutualisation.
- 5.3 In noting the progress made on discussions with BGE, it was also noted that the company intended to provide a detailed explanation of its proposals to the Authority.

6. BGE (NI) PRICE CONTROL 2012-17

- 6.1 Roisin McLaughlin introduced this item which updated the board on the BGE(NI) price control review and, specifically, latest developments in relation to opex and capex. She also outlined the proposed approach to the cost of debt element of the price control review.
- 6.2 Questions from board members on the proposed approach to the risk free rate were addressed. A query relating to the company's debt interest payments was also clarified. The board discussed the nature of BGE's engagement with the Authority to date and the conduct of this engagement as the price control review neared its conclusion.
- 6.3 At the conclusion of the discussion, the board was briefed on plans to consult on the Authority's approach to the cost of debt. The timing of a presentation of a decision paper to the board, on the price control review, was also noted.

7. RP4 EXTENSION AND RP5 TIMETABLE

- 7.1 Tanya Hedley introduced this item which sought approval for capital expenditure for the current NIE T and D price control period (RP4) and the date for the start of the new price control period (RP5).

7.2 The reasons for the RP4 extension and the proposed start for RP5 were outlined. A broader discussion ensued on the timeliness of the response by regulated companies to information requests by the Authority. It was noted that the Authority had introduced the concept of regulatory letters to enhance communication with regulated companies. Additionally, the board was briefed on the intention to provide a commentary on price control process timing issues in the final RP5 determination.

7.3 With all matters addressed, the board approved the capital expenditure request for the extended RP4 period October 2012 to March 2013, and the start date for RP5 of 1 January 2013.

8. NIE CAPITALISATION PRACTICE

8.1 Tanya Hedley introduced this item which outlined the outcome of the audit investigation on NIE capitalisation practice. The paper also sought the board's endorsement of the approach for the publication of the capitalisation practice report, and approval for RAB and revenue adjustment proposals.

8.2 Board members discussed the findings of the investigation undertaken by the consultant auditors and the extent to which identified capitalisation practice breached regulatory rules. Questions on engagement with NIE on the capitalisation practice issue and more broadly, in relation to the RP5 price control, were addressed. Finally, board members discussed the publication of a draft determination in relation to capitalisation practice and the presentation of key findings.

8.3 The board noted the outcome of the audit investigation. The publication of a draft determination and audit investigation report for a four week period was endorsed by the board. Finally, the board approved the proposals in relation to RAB and revenue adjustment.

9. RP5 UPDATE

9.1 Tanya Hedley provided a verbal briefing to the board on responses to the draft determination, further engagement with NIE and plans for finalising the price control review.

9.2 Board members noted the briefing, and the significant work to be undertaken before a final determination would be presented to the board for its consideration at the end of September.

There being no other business, and following a meeting review, the meeting concluded at 1.05 p.m.