

MINUTES OF A SPECIAL MEETING OF THE NORTHERN IRELAND AUTHORITY FOR UTILITY REGULATION (THE 'AUTHORITY') HELD ON TUESDAY 4 SEPTEMBER 2012, AT THE OFFICES OF WRAGGE AND CO, LONDON AT 2.15PM

Present: Bill Emery Chairman
Philip Johnson
Bill Cargo
Clive Elphick
Alan Rainey
Shane Lynch Chief Executive

In attendance:

Jo Aston	Director of Water
Donald Henry	Director of Corporate Affairs (by teleconference, for agenda item 5b)
Brian McHugh	Acting Director of Retail and Social
Tanya Hedley	Director of Gas
Greg Irwin	Director of Electricity (by teleconference, for agenda item 6)
Kevin O'Neill	Board Secretary/Communications Manager
John Mills	Network Manager, Electricity directorate (by teleconference, for agenda item 6)
Roisin McLaughlin	Network Regulation Manager, Water directorate (by teleconference, for agenda item 6)
Richard Hume	Manager, Gas directorate (by teleconference, for agenda item 5)
	Analyst, Gas directorate (by teleconference, for agenda item 5)

1. APOLOGIES FOR ABSENCE

1.1 Jim Oatridge, Richard Rodgers.

2. FIRE DRILL

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

3. DECLARATIONS OF INTEREST

3.1 Bill Cargo indicated that he had previously been a director of Islandmagee Storage Ltd but had since resigned from that position.

4. PC13

4.1 The board received a presentation from Jo Aston on the draft price control determination for NI Water for the period 2013-15 (PC13). She outlined the background and key aspects of the draft price control determination and sought the board's approval for the approach proposed.

4.2 A discussion ensued on the key aspects of the determination. Board members sought clarification on specific issues: the delivery of outputs, the subsidy provided by DRD, financial ratios and the proposed capex allowance and efficiencies.

4.3 There was also broader discussion on the issue of incentives and how NI Water could be incentivised to improve its efficiency and performance.

4.4 A discussion also took place on the funding NI Water voluntary early retirement (VER)/voluntary severance (VS) schemes during the PC13 period and the background in that regard. The Authority's proposed approach to the VER/VS issue was also discussed in the context of the extent of the efficiency challenge on opex.

4.5 Several scenarios were presented to the board in respect of the extent of the opex efficiency challenge. The board discussed the scenarios presented in the context of NI Water's opex outperformance during the PC10 period and a desire to ensure that the Authority's efficiency challenge was robust.

4.6 The board approved the proposals as presented on cost of capital and financial ratios, the approach to setting capex efficiencies and the approach to the Business Improvement Programme allowance. It was also agreed that VER/VS schemes would not be funded through charges. Finally, an opex efficiency target of 6% over the PC13 period was also agreed. It was noted that these decisions would determine the k-factors that would be detailed in the draft price control determination.

4.7 The board also briefly discussed key messages to be conveyed at the publication of the draft price control determination.

5. ISLANDMAGEE GAS STORAGE LICENCE APPLICATION

5.1 Brian McHugh introduced this item, which sought the board's approval for the granting of a storage licence to Islandmagee Gas Storage Limited (IMSL).

5.2 Philip Johnson indicated that the Energy BAG had previously discussed this issue and were content with the proposal.

5.3 Clarification was provided to board members on the following: the use of the Use-it-or-lose-it (UIOLI) licence condition, the ongoing regulation of the gas storage licence and the impact of IME3.

5.4 The board approved the storage licence conditions and the granting of a gas storage licence to IMSL – subject to any representations received once the Authority's gives notice to grant a licence. The board also approved, in respect of the IMSL licence, that a UIOLI condition is not included within the licence and that the specified licence conditions commence only when commercial operations start.

6. MINUTES OF THE PREVIOUS MEETINGS

6.1 The minutes of the board meeting on 29 June were agreed subject to one minor amendment.

6.2 The minutes of the board meeting on 23 August were agreed.

7. CHIEF EXECUTIVE'S REPORT

(a) Shane Lynch presented his report and focussed on several issues.

7.1 He briefed the board on the recent tariff announcement by Power NI. Board members discussed the comparative position relative to electricity tariffs in Great Britain and the outlook for tariffs generally.

7.2 The board was apprised of developments on the NIE T&D price control. An update was also provided in relation to the Competition Commission hearing in respect of the Phoenix Natural Gas price control. The importance of developing an appropriate communications strategy, following the Competition Commission's final determination, was also discussed.

7.3 The board's view was sought on forthcoming appointments to the SEM Committee and had no issues were raised in that regard. It was however noted that Utility Regulator has yet to nominate a third member to its SEM Committee and it was agreed that the board would consider the options in that regard at its next meeting.

7.4 An update on the BGE price control was also provided. It was noted that the board would receive a decision paper for consideration at its next meeting. Key aspects of the the proposed Energy Bill and potential next steps in that regard were also discussed.

(b) Donald Henry presented the finance and performance report

7.5 He outlined the position regarding the budget, progress against the Forward Work Plan, and the latest risk registers. He explained the key variances, provided an indication of forecast outturn and clarified the latest position regarding the treatment of SEM related legal costs.

7.6 Board members commented on the risk registers, discussed the scoring and some proposed actions to mitigate risk that would be further developed by the Executive in regard to reputational-related risk.

8. IME2

8.1 The board noted the detailed record of decisions taken on IME2 infringement by the board at its 29 June meeting.

9. ANY OTHER BUSINESS

9.1 Alan Rainey briefed the board on the developments in relation to TSO certification in electricity and a forthcoming special meeting of the SEM Committee.

9.2 Shane Lynch noted that NIE had been invited to attend the next meeting of the Energy BAG.

There being no other business and, following a meeting review, the meeting concluded at 4.50pm.