

**MINUTES OF THE FORTIETH MEETING OF THE NORTHERN IRELAND AUTHORITY
FOR UTILITY REGULATION (THE 'AUTHORITY') HELD ON FRIDAY, 5 AUGUST 2011
AT QUEENS HOUSE, BELFAST AT 10.00 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 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 Mary Jones	Legal department
Ms Barbara Stevenson	Corporate Affairs Executive
Mr Paul Harland	Gas directorate (for agenda item 10)
Mr Carl Hashim	Gas directorate (for agenda item 10)
Mr John Mills	Water directorate (for agenda items 11 and 12)
Mr Alan Craig	Water directorate (for agenda items 11,12 and 13)
Mr Dermott McCann	(for agenda item 14)
Mr Caspar Swales	Water directorate (for agenda item 17)

1. APOLOGIES FOR ABSENCE

Mr Bill Cargo

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 13 May were agreed subject to one typographical error.

5. ACTION POINTS FROM THE PREVIOUS MEETING

The Action Points from the board meeting on 13 May were reviewed.

The Chairman noted the recent visit by the Board to Giant's Park Regeneration Project on 21st July and the Board agreed that a note of the visit was to be prepared and recorded.

6. CHIEF EXECUTIVE'S REPORT

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

The Chief Executive discussed a recent meeting he attended along with the Chairman and the NI Water Chairman. Board members were updated on the agreement to publish letters reflecting NI Water's commitment to completing the actions identified in the Recovery Action Plan in the Freeze/Thaw report. It was noted that these letters have now been published on the Utility Regulator and NI Water websites. Further actions arising from the Recovery Action plan were discussed and the Board were updated on ongoing communications between the Utility Regulator and NI Civil Contingency Group who are dealing with some of the broader areas identified in the Action Plan.

The Board was updated on recent meetings held between the Chairman and Chief Executive with the Minister for Regional Development and his Permanent Secretary. They were also briefed on recent update meetings between the Chief Executive, Water Director and the Chair and Vice Chair of the Regional Development Committees.

It was noted that the Chief Executive is now a member of the Sustainable Energy Inter-Departmental working group which is facilitated by OFMDFM. His participation in this group was welcomed by the Board.

The Acting Director of Retail updated the Board on consumer switching activity and notified them of the latest position with regard to market entrants. He noted that the consumer switching system was working well with all switching constraints to be removed from May 2012. It was also noted that IME3 will mean the introduction of a marketing code of practice which will capture doorstep selling issues.

The Chief Executive noted his approval of a proposal from NIE T&D of capex for transmission reinforcement to connect an additional 135MWs of wind generation. The Board were also updated on the progress of RP5.

The Board was updated on a recent electricity complaint received by the Utility Regulator on which a determination is to be made. An overview of the complaint was discussed and the approach to appointing decision makers was also noted and agreed.

A discussion took place on domestic electricity prices, specifically the Power NI tariff which is currently under review. A timetable for the approval of the tariff was discussed. The impact of wholesale fuel costs as well as upcoming tariff reviews for firmus energy also formed part of the discussion.

It was noted that the Utility Regulator is currently consulting on its future policy on promoting retail competition and the Acting Director of Retail will be bringing a paper to the Board in the Autumn, detailing the Utility Regulator position following this consultation process.

The Chief Executive updated the Board on recent meetings with the Chief Executive of Phoenix Natural Gas. A discussion was also held on the Phoenix Supply Ltd price control which is currently under consultation.

The Board discussed recent activities in CAG and noted the launch date of 1 October 2012. It was noted this will require significant Board input from July and additional Board and/or BAG meetings are to be scheduled to accommodate this.

The Chairman updated the Board on a meeting he attended of the Chairs of Regulators Group. He discussed proposals for the introduction of a Competition and Markets Authority, as presented by the Department for Business Innovation and Skills (BIS), and it was noted that UR would be considering the issues and how best to further engage in that regard.

(b) The Director of Corporate Affairs presented the Finance and Performance report which was considered and approved. An update on the budget position and year to date performance was provided. The forthcoming mid-year review was noted and a suggested amendment to the risk register was discussed.

7. REPORTS FROM BOARD SUB-COMMITTEES/ADVISORY GROUPS

Audit Committee

The Chairperson of the Audit Committee, Jim Oatridge, provided the Annual Report of the Audit Committee for the 2010/11 year and noted a few minor amendments to the text. The report summarised the work and conclusions of both internal and external audit and notes the main elements of the reporting to the Board and compliance with equality obligations.

The Chairperson of the Audit Committee noted that Tribal, a company that it appointed to provide internal audit services from 1 April 2011, has been taken over by Capital Group. It was noted that it had been confirmed that there are no conflict of interest issues following this change of ownership.

Energy BAG

The Chairperson of the Energy BAG, Philip Johnson, updated the Board on the work of the Energy BAG. He noted that the BAG discussions had focused on the PNGL price control. It

was noted that Power NI made a presentation to the Energy BAG on the draft price control determination that is currently under consultation.

Water BAG

The Chairperson of the Water BAG, Clive Elphick, noted that the recent work of the Water BAG focused on matters which are covered elsewhere on the agenda, ie NI Water Licence Modifications, NI Water Bid, Relevant Items and PC10 review.

Cross Utility BAG

The Chairperson of the Cross Utility BAG, Etain Doyle, noted that the work of the BAG focused on the consultation paper, Project Zeus Network Price Controls, which is on the Board agenda.

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 position iro the proceedings regarding the Irish carbon levy, regional integration, certification obligations arising from the EU IME3 directives, dispatch and scheduling and fuel mix disclosure. It was noted that the SEM has until 2016 to fully comply with the European Guidelines on Capacity Allocation and Congestion Management.

8 UPDATES

a) Network finance

The Chief Executive noted a recent meeting held with ESB/NIE and updated the Board on its financing and governance arrangements.

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 the need for NI Water to address the cultural issues as highlighted in the Freeze/Thaw report. The Board was briefed on recent meetings with the NI Water Chairman and the

Department of Regional Development. The Board also discussed the need for NI Water to address consumer education aspects, reflecting that 80% of water lost during the freeze/thaw was from consumer properties. The Director of Water also provided an update on the progress the Utility Regulator has made in relation to the 'actions for broader consideration in the longer term' that were identified as part of the Recovery Action Plan.

9 BRIGHT IDEAS

An update on the work with the Scout Association was provided. It was also noted that the Chief Executive is to meet the Minister for Social Development to discuss fuel poverty related issues.

10 PNGL PRICE CONTROL REVIEW 2012

The Director of Gas presented a paper on the next PNGL price control review which will cover the period from 2012-2013. He noted that the key issues had previously been discussed at the Board and at the Energy BAG. Board members held a significant discussion on the paper with issues discussed including consumer impact, opex, capex, maintenance regimes and the timetable for the review programme. The Board agreed that, in accordance with standard regulatory practice, PNGL would receive a copy of the consultation paper 24 hours prior to publication. The Board thanked the staff involved for their work in progressing the price control and approved the proposals.

11 PC10 REVIEW

The Director of Water presented a paper detailing the approach being taken to the PC10 review. A significant discussion was held on the approach presented and the Board agreed on the approach outlined. The Board also delegated Authority to the CEO and Director of Water to take further decisions in that regard.

12 NI WATER BID: RELEVANT ITEMS

The Director of Water presented a paper outlining NI Water's Bid to release 'Relevant item' funding currently held within DRD central funds. The Board approved the principles and the

nature of the items to be funded on the understanding that the amounts may be further refined in some cases.

13 LICENCE MODIFICATIONS, NI WATER

The Director of water presented a paper on proposed licence modifications to be incorporated into NI Water's Instrument of Licence ('the Licence'). These modifications had previously been discussed at the Water BAG. The Director of Water noted that NI Water have unconditionally agreed to the modifications. The Board agreed and approved the proposed modifications.

14 PROJECT ZEUS CONSULTATION PAPER: NETWORK PRICE CONTROLS

Due to time constraints, the Board decided to defer the discussion on the Project Zeus Consultation Paper: Network Controls until the September Board meeting.

15 CORPORATE COMMUNICATIONS STRATEGY

The Chairman noted the paper briefing the Board on the organisation's current strategy and orientation regarding communications activity over the 2007-11 period and proposals for future communications strategy. The Board agreed with the proposed strategy.

16 PC13 PLANNING

The Board was updated on recent developments in the planning of PC13. It was noted that this price control will cover two years. Discussions between the Utility Regulator and the Department for Regional Development were discussed and upcoming meetings with NI Water and other key stakeholders highlighted.

17 RP5 STAKEHOLDER ENGAGEMENT, GOVERNANCE AND TIMETABLE

The Acting Director of Electricity introduced a paper detailing the most recent developments relating to the NIE T&D RP5 price control, due to be implemented in 2012. The Board discussed at length, and agreed the arrangements for, the RP5 Governance Board and noted that the group will have an oversight/advisory role only. The Board also noted the revised timetable.

18 PROPOSED SCHEDULE FOR BOARD AND BOARD SUB-COMMITTEE MEETINGS, 2012

It was agreed that the 2012 schedule will be discussed at the next Board meeting in September.

19 ANY OTHER BUSINESS

December Board Meeting – it was decided that the Board meeting is to be moved from 15th to the 16th December 2011.

All items of business having been discussed, the Chairman brought the meeting to a close at 2.30pm.