

**MINUTES OF THE THIRTY-FIRST MEETING OF THE NORTHERN IRELAND
AUTHORITY FOR UTILITY REGULATION (THE 'AUTHORITY') HELD ON FRIDAY, 14
MAY 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
Mr Iain Osborne Chief Executive

In attendance:

Ms Jo Aston Director of Water
Mr Donald Henry Director of Corporate Affairs
Mr Shane Lynch Director of Electricity
Mr Brian McHugh Director of Gas
Mr JP Irvine Head of Legal
Mr Kevin Shiels Acting Director of Retail
Mr Greg Irwin Board Secretary and
Communications Manager
Mr Carl Hashim Gas directorate (for Agenda item 10)
Ms Roisin McLaughlin Gas directorate (for Agenda item 12)
Mr Alan Craig Water directorate (for Agenda item
15)
Ms Sarah Brady Social and Environmental Manager
Mr Frankie Dodds (for Agenda item 19)
Social and Environmental analyst
(for Agenda item 19)

1. APOLOGIES FOR ABSENCE

Etain Doyle

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 12 March were agreed subject to one minor amendment. The minutes of the special board meeting on 28 April were also agreed subject to one minor amendment.

5. ACTION POINTS FROM THE PREVIOUS MEETING

The Action Points from the board meeting on 12 March were reviewed.

Board members sought information on the likely publication of the Strategic Energy Framework. An update on a proposed meeting with Ofgem was also discussed. The Director of Electricity provided a briefing on the action point associated with the network finance standing agenda item.

6. CHIEF EXECUTIVE'S REPORT

(a) The Chief Executive presented his report, and drew the Board's attention to several items in particular. It was noted that several items relating to water would be covered on the board meeting agenda.

The Board received a briefing on the potential purchase of NIE transmission and distribution assets by ESB. Board members, in noting that there were some risks, discussed the role of the Authority in protecting the interests of Northern Ireland consumers from such a transaction. Legal advice was provided to the board in relation to the scope of regulatory powers and the roles of other key stakeholders. It was noted that Authority officials would be discussing the issue with key stakeholders over the coming weeks. The board requested that it be kept informed about any further developments that may arise.

The Director of Water clarified the impact of the new Streetworks regime on the electricity network.

It was noted that the Authority expected to receive a letter from the Minister for Enterprise, Trade and Investment outlining her position on the Common Arrangements for Gas (CAG).

The Chairman asked that a suitable response be prepared as soon as possible after receipt of the Minister's letter. Board members clarified the timing for the delivery of CAG.

The Chief Executive updated the Board on the proposed entry to the household electricity market by Airtricity.

Board members noted the conclusion of the consultation on affordability tariffs and briefly discussed key financial issues associated with affordability tariffs.

A query from a board member relating to the performance management round was clarified by the Director of Corporate Affairs.

The Board recorded its appreciation and good wishes to the Head of Legal, who will shortly be moving to a new role.

(b) The Director of Corporate Affairs presented the Finance and Performance report for consideration and approval. Budget variances were explained and discussed. Progress against Forward Work Plan (FWP) targets was clarified, and changes to the categorization of FWP targets were noted. Finally, the draft corporate and reputational risk registers were presented and reviewed.

Much of the ensuing discussion by the board focused on the risk registers. Board members discussed specific risks where changes to the assessment had been made, and the extent of action to mitigate these was clarified. Clarification was also provided on the detailed approach to addressing high risk areas. Finally, board members discussed new or emerging risks. While political/reputational risks were front of mind, it was felt that it would be appropriate also to reflect the risk (in the corporate affairs directorate register) to travel associated with the recent volcanic ash disruption.

7. REPORTS FROM BOARD SUB-COMMITTEES

SEM Committee

It was agreed that there was nothing further to add to the written update on the SEM Committee, which was contained within the Chief Executive's report.

Energy BAG

It was noted that items covered by the Energy BAG at its last meeting had either been discussed as part of the Chief Executive's report or were on the board agenda.

Water BAG

It was also noted that items covered by the Water BAG at its last meeting were on the board agenda.

Remuneration Committee

It was reported that the Remuneration Committee, at its meeting the previous day, had approved performance management award profiles and had discussed a revised Terms of Reference.

Audit Committee

The Chairman of the Audit Committee, Jim Oatridge, provided a report on the meeting of the committee which had taken place the previous day. The Committee had considered the following items: corporate dashboard and risk register, draft accounts, internal audit reports, revised terms of reference for the committee, a draft board members' handbook, a review of conflict of interest documentation and, the Scheme of delegation. The Board's attention was drawn to fact that the overall assessment, in relation to internal controls, had been raised to substantial confidence. It was asked that the internal audit report on corporate governance be circulated to board members.

8 NETWORK FINANCE

This item was also addressed within the Chief Executive's report.

9 BRIGHT IDEAS

It was noted that a first proof of the Guide to Regulation had been received and plans were progressing for publishing the document.

10 PHOENIX NATURAL GAS LTD PRICE CONTROL REVIEW 2012

Carl Hashim introduced this paper, which made the proposal that a price control be carried out covering a shorter period in order that the subsequent control aligns with that of firmus energy from 2014.

Board members asked about the impact of the change on the gas companies concerned and the process of implementation.

The Chairman of the Energy BAG, Chris Le Fevre, indicated that the group had discussed and agreed the proposal.

The Board approved the proposal to carry out a two year price control for Phoenix Natural Gas Ltd covering the calendar years 2012 and 2013.

11 MEMORANDA OF UNDERSTANDING WITH DRD, NIEA AND DWI

The Director of Water introduced this item which updated the board on the development of Memoranda of Understanding (MoUs) with the Department of Regional Development (DRD), the Northern Ireland Environment Agency (NIEA) and the Drinking Water Inspectorate (DWI). The paper also sought board approval for the MoU with NIEA.

Board comments focused on two areas. Firstly, board members generally sought to clarify the inter-relationship of the various MoUs. Secondly there was a more specific question about the focus of the MoU with DWI.

It was agreed that the MoUs would be discussed at the next board meeting, and the board asked that the documents be subject to legal review before a final decision on approval is made.

12 FEASIBILITY STUDY INTO EXTENDING THE GAS NETWORK

Roisin McLaughlin presented this paper, which informed the board of the draft findings from a study into the feasibility of extending the natural gas network in Northern Ireland. The paper also outlined the potential policy implications of the study.

The board conducted an extensive discussion on the paper. Board members in particular clarified the costs of the project and the assumptions made in relation to its financial viability. The impact on charges to consumers was also raised. Questions about the relationship between demographics and extension of the network were also clarified. There was a discussion on the Authority's primary duty to promote gas in the context of the wider carbon reduction agenda. Finally, a specific query about the Natural Gas Strategic Development Group was addressed.

Overall, the Board was supportive of pro-active efforts to examine the feasibility of extending the gas network, while being mindful of financial issues that would determine the ultimate viability of any development.

13 GEOGRAPHIC AVERAGING OF CHARGES

The Chief Executive explained the basis of the paper in terms of whether the same price should be applied across Northern Ireland for accessing utility networks.

The discussion that followed tended to focus on the impact of the current approach, and any changes to that approach, on different types of customers. Specifically, the board discussed how the needs of vulnerable customers may be addressed (including those in rural areas generally). Board members also discussed the impact of new development on access to utility networks and whether any policy change should be aimed at this group of customers. Following a discussion on standards in relation to service provision, it was agreed that an information note would be prepared for board members on the guaranteed standards set by the Authority and the technical standards that the utility company works to.

In drawing the discussion to a close, the Chairman stated that there was broad support for the principle of equalization and invited the Executive to bring a further paper on this issue to a future board meeting.

14 NI WATER UNDERTAKINGS

The Director of Water provided an update on progress against Undertakings that were submitted by NI Water in January 2009.

The Board, in noting that progress on addressing the undertakings had been made, agreed that further work was necessary. It was agreed that NI Water would not be released from the undertakings at this time, and the board would consider the issue further in October.

15 UPDATE ON NI WATER INVESTIGATION INTO PROCUREMENT PRACTICE

Alan Craig updated the board on the ongoing investigation into NI Water procurement practice.

Queries from board members about the role of the Authority, the extent of the procurement problems at NI Water and the timescale for a decision on the remaining facets of the investigation were addressed.

16 PC10 FINAL DETERMINATION AND COMPETITION COMMISSION REFERRAL

The Director of Water presented this item, noting that, while the Authority was continuing to make preparations for a Competition Commission referral, it was also engaging in dialogue with local stakeholders to resolve issues related to PC10.

Board members sought further information with regard to the local discussions on PC10. There was also a discussion on the impact that public expenditure reductions may have on NI Water.

The discussion concluded with board endorsement of the approach being pursued by the Executive.

17 ASSISTING VULNERABLE CUSTOMERS WITH AFFORDABILITY CONCERNS

The Acting Director of Retail briefed the board on the consultation on issues associated with assisting vulnerable customers with energy affordability, and related outcomes.

Board members noted the paper.

18 CUSTOMER RESEARCH ON VIEWS ON THE ALL-ISLAND ELECTRICITY MARKET

The Acting Director of Retail briefed the board on market research on residential and business customer attitudes and experiences of the electricity market across the island of Ireland.

It was noted that a presentation on the research had previously been discussed at the Energy BAG.

Board members noted the paper.

19 PUBLICATION OF RENEWABLES OBLIGATION: ANNUAL REPORT 2008-09

The Social and Environmental manager introduced this item which presented the Authority's annual report on the Northern Ireland Renewables Obligation.

Board members sought information on the position with regard to the renewables obligation compared to the previous year. Specific queries were also addressed regarding the relative contribution of wind and landfill compared to other parts of the UK.

Board members noted the report.

The Social and Environmental Manager also drew the Board's attention to a paper which outlined the Authority's position relative to a checklist contained in a recent Royal Commission on Environmental Pollution (RCEP) report on 'Adapting Institutions to Climate Change'. It was agreed that the paper would be sent to board members for comment prior to dispatch to the RCEP secretariat.

20 PROPOSED SCHEDULE FOR BOARD AND BOARD SUBCOMMITTEE MEETINGS, 2011

The Board Secretary presented the proposed schedule for 2011.

Board members suggested a small number of changes to the schedule, and it was agreed that this would be circulated prior to the schedule being finalised.

21 ANY OTHER BUSINESS

- The Chief Executive notified the board of items relating to potential developments in the electricity industry, staffing changes at the Department of Enterprise, Trade and Investment and the Office of Fair Trading's study into the impact on the consumer experience of different modes of ownership of infrastructure companies.

All items of business having been discussed the Chairman brought the meeting to a close at 2.45 p.m.