

**MINUTES OF THE TWENTY-SIXTH MEETING OF THE NORTHERN IRELAND
AUTHORITY FOR UTILITY REGULATION (THE ‘AUTHORITY’) HELD ON
WEDNESDAY, 25 NOVEMBER 2009 AT QUEENS HOUSE, BELFAST AT 10.00 AM**

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

In attendance:

Ms Jo Aston Director of Water
Mr Dermot MacCann
Ms Adele Boyle Corporate Affairs Directorate
Mr Greg Irwin Board Secretary and Communications
Manager
Mr Sean Lyons Water Directorate (for Agenda item 6)
Mr John Mills Water Directorate (for Agenda item 6)
Mr Caspar Swales Water Directorate (for Agenda item 6)
Mr Alan Craig Water Directorate (for Agenda item 6)
Ms Roisin McLaughlin Gas Directorate (for Agenda item 6)

1. APOLOGIES FOR ABSENCE

Donald Henry, Brian McHugh, Shane Lynch, JP Irvine, Kevin Shiels.

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

Clive Elphick indicated that he was an affiliate of LECG and had recently been appointed as a Senior Advisor with CEPA.

4. MINUTES OF THE PREVIOUS MEETING

The minutes of the previous meeting on 15 October were agreed.

5. ACTION POINTS FROM THE PREVIOUS MEETING

The Action Points from the previous meeting were reviewed.

6. PC10

The Chairman highlighted the significance of the Board's discussion on PC10 in his opening remarks. He also outlined high level issues that the Board needed to address in its discussion.

The Director of Water and senior managers from the Water Directorate delivered a presentation on PC10, which was structured in four parts: (1) financial overview; (2) capital expenditure; (3) operational expenditure, and (4) board approval for PC10 Final Determination. Throughout the presentation, board members took the opportunity to ask questions relating to the detail as well as discussing wider issues that arose.

Board members noted that further significant information had been received from NI Water after the consultation period on the draft determination had ended.

The Board discussion on the financial overview area focused on several key issues. There was discussion on the impact of the revised revenue requirement on the level of subsidy, charging and the notional household bill. Board members sought clarification on the customer numbers and volumes data feeding into the financial model. The explanation behind the notional Regulatory Capital Value (RCV) being proposed was explored and compliance with key financial ratios was discussed. Finally, the Board also addressed the issue of access to cash reserves for NI Water.

The Board recognized the need for further analysis and assessment of information, particularly in relation to customer numbers and volumes. The Board agreed the proposed approach to the RCV and endorsed the intention to review RCV assumptions during the period of the price control.

Board members then focused on the capital expenditure and the comparison between the figures outlined in the draft determination and the proposals now being advanced following the consultation and the receipt of further information from NI Water. Specifically, board members discussed: the overall level of the efficiency challenge, the proposed change to the Regional Price Adjustment (RPA), additional allowances relating to capital maintenance, the water mains rate, water quality investment, and additional outputs and the utilization of the Overall Performance Assessment Score.

The Board endorsed the RPA proposal. It was also agreed that further analysis would be carried out on the issue of additional outputs by NI Water. The proposed additional capital maintenance allowances were also endorsed. Finally, the Board supported the proposal around water mains activity.

It was noted, in the discussion on Operational Expenditure (OPEX) that recent information received from NI Water would have a significant bearing on the profile of proposed efficiency savings, and hence the Authority's position on OPEX required further modeling. Much of the board discussion focused on both the level, and the profile, of the OPEX efficiency challenge over the period of the price control. The Board also specifically discussed provisions relating to special factors and special operating expenditure and the Voluntary Early Redundancy/ Voluntary Severance (VER/VS) schemes.

The Board recognised the need for further review of the additional special operating costs. There was agreement on the Authority's position on the level of the efficiency challenge, the management of risks in relation to power costs and the appropriate level of VER/VS provision.

The Board concluded its discussion by agreeing to the timetable outlined for the production of the final determination. There was specific agreement that, should further developments require it, the Board would approve an extension to the time required for producing the final determination.