

**MINUTES OF THE THIRTY-THIRD MEETING OF THE NORTHERN IRELAND
AUTHORITY FOR UTILITY REGULATION (THE 'AUTHORITY') HELD ON WEDNESDAY,
8 SEPTEMBER 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

In attendance: Ms Jo Aston Director of Water
Mr Donald Henry Director of Corporate Affairs
Mr Brian McHugh Director of Gas
Mr Shane Lynch Director of Electricity
Mr Kevin Shiels Acting Director of Retail
Ms Mary Jones Legal department
Mr Greg Irwin Board Secretary and
Communications Manager

1. APOLOGIES FOR ABSENCE

Iain Osborne, 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 8 July were agreed subject to one amendment.

The Board discussed recent Freedom of Information requests. It was noted that the Authority would take steps to enhance its processes for dealing with Fol requests.

5. ACTION POINTS FROM THE PREVIOUS MEETING

The Action Points from the board meeting on 8 July were reviewed.

It was noted that action was being advanced to ensure that Northern Ireland interests were appropriately represented in the United Kingdom engagement with the new Agency for the Co-operation of Energy Regulators (ACER).

6. CHIEF EXECUTIVE'S REPORT

(a) The Chief Executive's report was presented. In the Chief Executive's absence, directors spoke to relevant parts of the report.

The Director of Water noted that a paper on PC10 was on the agenda. She also briefed board members on a recent announcement of an investigation into NI Water by the Northern Ireland Audit Office.

The Director of Electricity outlined key issues that were discussed by the Single Electricity Market (SEM) Committee at its last meeting. Board members broadly discussed the decisions taken by the SEM Committee.

The Director for Gas provided an update. He outlined progress on advancing the Common Arrangements for Gas (CAG) workstream. Board members were also briefed on the consultation being undertaken on the options for opening the firmus licence area for supply competition. He clarified the arrangements for advancing competition in the supply of gas in the Greater Belfast area.

Board members discussed how the Authority might respond appropriately to the recently announced review of OFWAT. It was agreed that the Authority's response would take account of the approach adopted for the OFGEM review (a draft response for this review was a later agenda item).

(b) The Director of Corporate Affairs presented the Finance and Performance report for consideration and approval. Budget variances were explained. It was noted that the outcome of the mid-year review of the budget would be presented to the Board in October, following consideration by the Audit Committee at its September meeting.

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

The Chairman of the Energy Board Advisory Group (BAG), Philip Johnson, provided a report on the most recent meeting of the group, which had taken place the previous day. He indicated that the Energy BAG had discussed the ESB/NIE T and D transaction, gas and electricity tariff papers and Unbundling and IME3. The Board clarified the implications of IME3 for the term of office of non-executive directors on the boards of regulatory bodies, and asked that the Executive liaise with the Department of Finance and Personnel on this matter.

Water BAG

The Chairman of the Water BAG, Clive Elphick, indicated that a paper on the agenda relating to PC10 covered the substantive issues discussed by the Water BAG at its recent meeting.

Audit Committee

The Chairman of the Audit Committee, Jim Oatridge, reported on a meeting of the Audit Committee, which had convened the previous day. He noted that a representative of the Northern Ireland Audit Office was in attendance. The Board was advised that the Authority's accounts for 2009-10 had received an unqualified audit opinion. The Committee had also considered progress with audit reviews generally, and it was noted that the majority of points

had already been actioned. Finally he indicated that the process had commenced to tender for internal audit services.

Cross Utility BAG

Chris Le Fevre reported on the first meeting of the Cross Utility BAG, which had taken place the previous day. A terms of reference was approved and forthcoming meeting dates were agreed. It was also agreed that the new BAG would focus on the price controls work and perhaps also look at standards of service.

8 NETWORK FINANCE

The Director of Electricity briefed board members on a planned conference which the Authority planned for January on the subject of infrastructure financing.

Separately, the Board asked to see the Authority's response to the OFT stocktake on ownership of infrastructure assets.

9 BRIGHT IDEAS

It was noted that the Guide to Regulation would be available at the October meeting of the board.

The Board discussed a pilot project aimed at providing access points for electric vehicles to connect to the grid. While there was a discussion over the financing of a more widespread initiative, there was in-principle support for the concept behind the pilot project, recognising its potential contribution to carbon reduction strategies. The Board mandated the Director of Electricity to take forward the Authority's involvement in the initiative.

10 REVIEW OF OFGEM

The Board considered a draft response to the Department of Energy and Climate Change review of OFGEM.

Drawing on earlier comments, in relation to the review of OFWAT, the Board agreed that an Authority response to both reviews was appropriate. The Authority response would focus on

its experience as an economic regulator of three different utilities in Northern Ireland and stress the value of inter-regulator co-operation.

11 TARIFF REVIEWS

a) Electricity annual tariff review

The Acting Director of Retail briefed the board on the forthcoming announcement regarding a review of NIE Energy Supply's tariffs.

It was noted that the Energy BAG had also discussed the electricity tariff review at its meeting the previous day.

The Board endorsed the approach to the electricity tariff review.

b) Gas mid-year tariff review

The Director of Gas briefed the board on the forthcoming announcement regarding a review of Phoenix Supply Ltd's tariffs.

It was also noted that the Energy BAG had also discussed the gas tariff review at its meeting the previous day.

The Board endorsed the approach to the gas tariff review.

The Board noted that while both tariff announcements (electricity and gas) would leave consumer prices unchanged, which was a good outcome entering the winter months, the outlook for energy prices remained uncertain.

12 PC10 FINAL DETERMINATION AND PUBLIC EXPENDITURE – ANNUAL REVIEW PROTOCOL

The Director of Water briefed the board on the PC10 Final Determination and the Annual Review protocol.

Board members clarified a number of issues relating to: the overall principles, referral to the Competition Commission, k factors and the timetable for finalising the Annual Review Protocol.

With all matters clarified, the Board indicated its support for the principles outlined in the paper and delegated the Water BAG to work with the Executive team to finalise the detail relating to the Annual Review Protocol.

13 SERVICE STANDARDS IN RELATION TO ELECTRICITY, GAS AND WATER

The Board noted the paper as a useful contribution to the understanding of service standards across the three utilities. It was agreed that the Cross Utility BAG would consider the issue at its next meeting.

14 ANY OTHER BUSINESS

Schedule 2011 – The Chairman asked that the planned date for BAG meetings in April 2011 (currently the 14th), be reviewed.

All items of business having been discussed the Chairman brought the meeting to a close at 12.45 p.m.

