

MINUTES OF A MEETING OF THE NORTHERN IRELAND AUTHORITY FOR UTILITY REGULATION (THE 'AUTHORITY') HELD ON THURSDAY, 19 MAY 2016 IN QUEENS HOUSE, BELFAST AT 11.00 A.M.

Present:

Bill Emery (Chairman), Bill Cargo, Teresa Perchard, Jon Carlton, Alex Wiseman, Richard Rodgers, Jenny Pyper (Chief Executive)

In attendance:

SMT – Kevin Shiels, Brian McHugh, Tanya Hedley, Jo Aston, Donald Henry, Greg Irwin

Elaine Cassidy (all items), Michael Campbell (agenda items 4 and 5), Lesley Robinson (agenda item 5), Stephen Abram (agenda item 6), Neil Bingham and Richard Hume (agenda item 7), Jean Pierre Miura (agenda item 9), Paul Bell and Bronagh McKeown (agenda item 11).

1. APOLOGIES FOR ABSENCE

1.1 None

2. FIRE DRILL

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

3. DECLARATIONS OF INTEREST

3.1 There were no declarations of interest made.

4. SCOPE OF POWER NI PRICE CONTROL

4.1 Kevin Shiels introduced this paper which sought the board's endorsement of the options for consultation on the scope of the Power NI price control. Michael Campbell provided an overview of developments since the board's discussion on this item at the April board advisory forum.

4.2 The focus of the board's discussion was on the merits of consulting on an option to further subdivide the 0-50MW category. Board members considered the evidence base presented and the definition of market definition was clarified. It was agreed that there was insufficient evidence to support consulting on the option of a further sub-sector. It was agreed that, if there was evidence to support further sub-dividing the 0-50MW category, the consultation would provide such an opportunity for respondents to provide this information.

4.3 The suggestion to provide further pricing information in the consultation paper was noted. There was also some discussion on the wider review of retail energy market. A query on the engagement with Power NI on the issue of scope was addressed.

5. GAS SUPPLY PRICE CONTROLS

- 5.1 Kevin Shiels introduced this item which provided draft decisions on the main areas of the gas supply price control for SSE Airtricity and firmus energy. Along with Lesley Robinson he provided an overview of proposals relating to the scope and coverage of the price control, operating costs, gas to the west costs and margin.
- 5.2 Board members clarified the assumptions relating to the proposed margins. The rationale for the difference between the proposed margins for the two companies was explored. The comparison with Competition and Markets Authority guidance on the treatment of margins for low asset base companies was also discussed. The impact of the margin proposals on consumer bills was raised.
- 5.3 There was also a significant discussion on the proposed allowances for operating costs. Board members explored the assumptions in respect of manpower and IT costs particularly. The opportunities for both companies to harness efficiencies were discussed. Expectations in respect of consumer benefits and outcomes that would accrue from increased operating costs were clarified.
- 5.4 With all queries addressed and the discussion concluded, the board agreed the proposals in respect of margin and operating costs. There was also agreement for proposals in respect to the scope and coverage of the price control and gas to the west costs.

6. COMPETITION PROCEDURE

- 6.1 Elaine Cassidy introduced this paper which sought the board's approval for guidance on the application of the Utility Regulator's competition powers. She provided background to, and the context for, the development of the guidance. Stephen Abram then briefed the board on the key aspects of the guidance.
- 6.2 Board members commended the development and presentational aspects of the guidance.
- 6.3 Several comments in respect of the decision-making process relating to the guidance, the interface with the Competition and Markets Authority and the audience for the document were addressed. There was also a brief discussion on the dissemination of the guidance.
- 6.4 The board also discussed the enforcement power in respect of the Single Electricity Market and EU regulation on energy market integrity and transparency (REMIT).
- 6.5 The board approved the guidance on the application of the Utility Regulator's competition power as presented.

7. CODE OF PRACTICE ON ENERGY TAMPERING AND THEFT

- 7.1 Tanya Hedley provided an initial contribution on the background to this paper which sought the board's endorsement of the approach in respect of the code of practice on

energy tampering and theft. Richard Hume provided an update on the meter replacement programme, engagement with industry on a code of practice and timing around next steps on the development of the code.

7.2 The board explored the actions being pursued to address the problem while recognising the associated challenges. In this regard the board discussed the options for encouraging effective action. There was agreement that joined-up action with partner organisations was critical success factor.

7.3 The board, in recognising the seriousness of the problem, endorsed the proposed approach. This would lead to the development of separate codes of practice for electricity and gas companies and the issuing of a consultation paper which will provide a draft code for comment.

8. ANNUAL REPORT 2015-2016

8.1 Greg Irwin briefed the board on an advanced text draft of the Annual Report 2015-2016 for comment.

8.2 Board members made comments in respect of: the structure of the report – and the sequencing of certain chapters, the extent of the narrative and the organisation of information in the annexes to the report.

8.3 It was agreed that board members could provide drafting comments following the meeting, prior to a further iteration being circulated for comment.

9. I-SEM FORWARDS AND LIQUIDITY

9.1 Jo Aston introduced this item which provided a briefing on the ISEM workstream relating to Forwards and Liquidity. Jean-Pierre Miura gave a presentation which focused on: key issues around ISEM liquidity promotion measures, ring-fencing procedures, market structure and the options for promoting liquidity.

9.2 Board members clarified issues and raised queries during the presentation. The focus of the discussion was on the options to promote liquidity and understanding the implications of each.

9.3 The board welcomed and noted the briefing as provided.

10. SONI INDEPENDENCE

10.1 Jo Aston introduced this information paper which included a note outlining the discussion by the board on SONI independence at its March meeting.

10.2 There was agreement that action was now required to give effect to the board's view, as outlined in the note of its discussion at the March meeting. Engagement with Eirgrid was therefore necessary to make progress on the issue. The need to appropriately engage with the Commission for Energy Regulation was also noted.

11. SEMO PRICE CONTROL DRAFT DETERMINATION

- 11.1 Jo Aston introduced the draft Single Electricity Market Operator (SEMO) price control determination for information (as the price control was a reserved SEM matter).
- 11.2 Board members considered the cost assumptions and, in particular, the potential for any duplication of costs - given the unique nature of SEMO as a contractual joint venture between Eirgrid and SONI. The issue of parent company guarantee was briefly explored. There was also a more general query about the comparison between the SEMO submission and the draft determination. Finally, the board clarified the governance arrangements in respect of licence modifications to give effect to the final price control determination.
- 11.3 The board noted the draft SEMO price control determination.

12. BOARD SCHEDULE 2017

- 12.1 Greg Irwin presented the schedule of board and board sub-committee meetings for 2017.
- 12.2 The board endorsed the schedule as presented and it was agreed that this would be circulated to board members and staff.

13. MINUTES

- 13.1 The minutes of the board meeting on 10 March 2016 were agreed, subject to three amendments, for publication.

14. ACTION POINTS

- 14.1 The action points were reviewed by the board. All actions were complete.

15. REPORT FROM THE EXECUTIVE TEAM

- 15.1 Jenny Pyper provided an overview of the Executive team report. She noted the recent Assembly election results and briefed the board on the developing Programme for Government. It was agreed that the briefing paper on political party energy and water manifesto commitments should be sent to board members.
- 15.2 An update on the SONI price control was provided and a query on the timing of licence modifications was addressed.
- 15.3 The board was apprised of a judicial review relating to a network connection issue. It was agreed that the board would receive a further update on the overall electricity connections issue at its next meeting.
- 15.4 A query from a board member in respect of enhanced supplier codes of practice was addressed.
- 15.5 The board noted the SEM and I-SEM updates.

- 15.6 The board approved the amendments, as presented, to the scheme of delegation.
- 15.7 The board approved the finance and performance summary, noted the budget position and the assessment of progress against FWP targets. A query relating to the timing of income and expenditure items was addressed. It was noted that the risk register would be discussed as a separate item at the next board meeting.
- 15.8 Bill Emery paid tribute to staff for continuing to perform and achieve despite the challenging work agenda.
- 16. ANY OTHER BUSINESS**
- 16.1 Given time pressures, and as the Audit Committee was due to take place following the board, this item was deferred.

There being no other business, the meeting concluded at 2.20 pm.