

MINUTES OF A MEETING OF THE NORTHERN IRELAND AUTHORITY FOR UTILITY REGULATION (THE 'AUTHORITY') HELD ON THURSDAY, 12 DECEMBER 2013 IN QUEENS HOUSE, BELFAST AT 9.00 A.M.

Present:

Bill Emery (chairman), Richard Rodgers, Bill Cargo, Teresa Perchard, Harry McCracken, Jenny Pyper (chief executive)

In attendance:

SMT: Donald Henry, Kevin Shiels, Brian McHugh, Tanya Hedley, Greg Irwin

Item 4 – Paul Harland, Item 5 – Elena Ardines, Item 7 – Michael Campbell

1. APOLOGIES FOR ABSENCE

1.1 David Strahan.

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 Harry McCracken declared a potential interest in respect of agenda items 7 and 8 and voluntarily withdrew from the meeting before those items were discussed by the board.

4. GD14 FINAL DETERMINATION

4.1 Brian McHugh introduced this item which outlined the final price control determination for the gas distribution companies (Phoenix Natural Gas Ltd – PNGL and firmus energy – FE). A presentation focused on decisions relating to the following key aspects of the price control: capex unit rates, maintenance and emergencies, manpower, connections incentives and efficiencies.

4.2 Board members discussed and clarified each of the key aspects in turn. The board's discussion on capex unit rates focused on clarifying the basis for submissions from PNGL and FE and incentives associated with connecting new properties to the natural gas network. The discussion on network maintenance and emergencies allowances focused on the level of calls to the emergency call centre and the proposed reduction in the maintenance allowance. Discussion on both the manpower and the connections incentive items related to clarifying the basis for the proposed allowance. Finally, the board discussed proposals relating to efficiency and, in particular, the timing of the application of efficiency targets.

4.3 Following the conclusion of the discussion, the board approved the proposals as presented in respect of capex unit rates, manpower and the connections incentive. It was agreed that the proposed target for reducing the emergency call centre volumes

would be phased in from 2015. There was also agreement that the maintenance efficiency challenge would be reduced to zero and that the efficiency adjustment calculation for opex would apply from 2014 and not 2012.

- 4.4 The board also approved the delegated authority to the chief executive to approve publication of the final determination. In this regard, the board was briefed on the next steps and timing for the publication of the final determination.

5. DRAFT CORPORATE STRATEGY AND FORWARD WORK PROGRAMME

- 5.1 Jenny Pyper introduced this item which sought the board's approval for the draft corporate strategy and forward work programme for issue for public consultation.

- 5.2 Board members noted the progress that had been made on developing the draft strategy and forward work programme.

- 5.3 Several board members proposed drafting suggestions to the documents. Board members also discussed the scope of the projects being proposed in the forward work programme. The planning assumption that any budget increases would be below inflation was also noted.

- 5.4 Subject to consideration of any further drafting suggestions submitted, the board approved the draft strategy and forward work programme for issue for public consultation.

6. CONGESTION MANAGEMENT PROCEDURES (CMP) IMPLEMENTATION MEASURES IN NI

- 6.1 Brian McHugh introduced this item which sought the board's approval for modifications to the licences of gas transmission system operators to ensure full compliance with the congestion management provisions of the Gas Regulation. Marked up copies of the proposed licence modifications were provided for inspection by board members.

- 6.2 The timing for the proposed licence modifications was clarified. There was also comment on the drafting of the section relating to the CMP code changes and oversubscription and buy-back scheme.

- 6.3 The board approved the licence modifications as presented and approved the policy in relation to CMP code changes and the introduction of an over-subscription and buyback scheme (the Scheme). The board also delegated final decisions to approve code modifications, the Scheme and any consequent changes to the Northern Ireland Network Operators Agreement to the Director of Gas.

7. POWER NI SUPPLY PRICE CONTROL

- 7.1 Kevin Shiels introduced this item which sought the board's approval for the final determination for the Power NI price control. Specifically, the board's approval for the following key price control decisions was sought: the duration of the next price control,

the scope and coverage of the price control, operating expenditure and allowed margin.

7.2 The board raised several issues during discussion. The scope of the price control in the context of wider retail market considerations was discussed. Bad debt provision was raised and clarified. The rationale for the proposal on the efficiency factor was explained. A specific query on IT costs was addressed.

7.3 With all issues and queries addressed, the board approved the key price control decisions as presented. The board also approved the publication of the final determination and licence consultation to reflect the agreed price control decisions.

8. CONNECTION ARRANGEMENTS FOR OFFSHORE GENERATION

8.1 Tanya Hedley sought the board's endorsement for a paper setting out the Authority's approach to connection arrangements for offshore generation.

8.2 A small number of queries on the timing for delivering contestability arrangements were addressed.

8.3 The board endorsed the approach outlined in the paper.

9. MINUTES

9.1 The minutes of the meeting on 10 October 2013 were approved subject to a minor amendment. The minutes of the meeting on 14 November 2013 were approved.

10. ACTION POINTS

10.1 All of the action points were complete.

10.2 An update was provided on arrangements for dealing with a severe weather event in respect of electricity. It was also noted that several customer disputes relating to a severe weather event in March were being adjudicated on by the Authority.

11. REPORT FROM THE EXECUTIVE TEAM

11.1 Jenny Pyper introduced this item and provided an overview of key developments and meetings with stakeholders since the last board meeting.

11.2 The board's attention was drawn to the following aspects of the executive team report: retail market monitoring plans, a briefing on the process going forward on the Competition Commission's inquiry on the NIE T and D price control, electricity security of supply developments, the EU Services directive and the high level design relating to the regional electricity market.

11.3 The board was made aware of the intention to circulate regulations pertaining to gas guaranteed standards for approval by the board. It was also agreed that a terms of reference between the Authority and other regulators for co-operation on the

development of energy markets across Great Britain and the island of Ireland should be circulated to the board for approval.

- 11.4 The board briefly discussed the current review of consumer representation arrangements in Northern Ireland and it was agreed that the Authority's proposed response should be circulated to the board.
- 11.5 The board also approved the Authority's participation in the UK Regulation Network and the associated resource implications.
- 11.6 The board's approval of, via correspondence, the revised rules of procedure and terms of reference for the remuneration committee and the board advisory group was also noted.
- 11.7 The board noted and approved the finance and performance report and revised risk registers.

12. REPORT FROM BOARD SUB-COMMITTEES

- 12.1 Brief verbal reports were provided on recent meetings of the Audit and Remuneration committees and the Board Advisory Forum.

13. ANY OTHER BUSINESS

- 13.1 There was no other business.
- 13.2 There being no other business the meeting concluded at 12.25 pm.