

MINUTES OF A MEETING OF THE NORTHERN IRELAND AUTHORITY FOR UTILITY REGULATION (THE 'AUTHORITY') HELD ON THURSDAY, 13 FEBRUARY 2014 IN QUEENS HOUSE, BELFAST AT 9.00 A.M.

Present:

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

In attendance:

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

Items 4 and 8 – Jody O’Boyle, Item 6 – John Mills and Caspar Swales, Item 9 – Roisin McLaughlin, Item 10 – Colin Broomfield and Kenny Dane

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 Harry McCracken declared a potential interest in respect of agenda items 4, 7, 8, 10 and 11 and voluntarily withdrew from the meeting before those items were discussed by the board. Teresa Perchard declared a potential interest in respect of agenda item 9 and voluntarily withdrew from the meeting before the board’s discussion on this item.

4. NIE LAND BANK

4.1 Tanya Hedley introduced this item which sought the board’s approval for recommendations from NIE regarding land bank sites.

4.2 Board members clarified issues associated with the ownership of the sites, the valuation of the sites and the potential level of interest in the sites.

4.3 With these issues clarified, the board approved the recommendations in respect of the Coolkeeragh, Lisahally, Camlough and Kilroot sites.

5. ASSESSMENT OF BOARD EFFECTIVENESS

5.1 Greg Irwin introduced this item which sought the board’s approval for an approach for an initial high-level assessment of the board’s effectiveness and comment on the proposed questionnaire.

5.2 Board members made some preliminary observations on the focus of the questionnaire. Issues associated with the process for assessing and reporting on responses and the next steps in the process were also clarified.

5.3 The board approved the proposed approach for the initial high level assessment of the board's effectiveness.

6. PC15 PRICE CONTROL: CAPITAL MAINTENANCE AND CAPITAL EFFICIENCIES

6.1 The board considered two papers relating to the PC15 price control: (1) capital maintenance and (2) capital efficiencies. Both papers outlined the proposed approach and sought the board's view.

6.2 John Mills provided an overview on the capital maintenance item. The board discussion focused on the overarching issue of determining an appropriate level of expenditure in the absence of a robust case for increased investment in asset maintenance. NI Water's case for an increased level of asset maintenance in the long-term and, in particular, the company's efforts to develop its asset maintenance capability was discussed. The situation regarding asset maintenance for water companies in Great Britain was clarified. Key risks associated with resisting any increase in asset maintenance investment without a robust case to support it were discussed. The mitigation measures for addressing these risks were also identified. Specific queries around asset life, public private partnerships, the definition of infrastructure versus non-infrastructure assets and the role of the Drinking Water Inspectorate were addressed.

6.3 Caspar Swales provided background on the capital efficiencies item and outlined the proposed approach. The board noted the various options for establishing capital efficiencies and discussed the assumptions behind the recommended 'Cost Base' approach. Board members also considered the benchmarking position for NI Water relative to comparative companies. There was clarification of, and a discussion on, the symmetrical treatment of efficiencies methodology. The intention to examine NI Water's procurement efficiencies was noted. It was also noted that NI Water's status as a publicly owned utility was an important context for setting efficiency targets.

6.4 The board noted the approach proposed for both capital maintenance and capital efficiencies. The board endorsed the overall capital maintenance approach which resisted increases in asset maintenance investment unless a robust case was made and also supported the key mitigation measures identified.

7. SMART METERING ROLL OUT IN NI

7.1 Kevin Shiels introduced this paper which provided a high-level briefing and identified several issues for discussion.

7.2 Information was provided in respect of the policy/legislative locus for smart metering and the situation regarding the roll-out in other jurisdictions. Board members clarified the assumptions that contributed to the initial cost benefit analysis (CBA) exercise for smart metering in Northern Ireland. Queries relating to the installation of, and the

service life for, smart meters were addressed. Plans for the consultation on smart metering strategic goals and assessment criteria were discussed. It was agreed that the consultation document should reference the need for the smart meters to work in the context of the new wholesale electricity market. Finally the board discussed the risks arising from the smart metering roll-out.

- 7.3 It was agreed that the way forward on the smart metering roll-out should be set in the context of a discussion with DETI on the previous CBA, the department's policy position, and the need to focus on costs and benefits of the options going forward as part of the smart metering decision-making process. Furthermore, it was agreed that the Authority should write to the Department of Enterprise Trade and Investment (DETI) noting the issues and endorsing the commissioning by DETI of a CBA that takes account of relevant developments since the issue was last examined.

8. BELFAST WEST POWER STATION

- 8.1 Jody O'Boyle provided an introductory briefing on this item, which was an update on the NIE land bank site at the Belfast West power station.
- 8.2 The board noted the engagement that had taken place with stakeholders. The overall purpose of the land bank was clarified. Board members discussed the options relating to the Belfast West site.
- 8.3 The board endorsed continuing engagement with all interested parties to further the development of renewable generation within the Belfast Harbour estate.

9. GAS TO THE WEST

- 9.1 Jenny Pyper introduced this paper which updated the board on the award of licence process for gas to the west and summarised the legal risks.
- 9.2 The board clarified and discussed the risks associated with the project and, the actions taken to mitigate any such risks. Questions from the board on the following issues were addressed: the documentation for the competitive process, legal scrutiny, communications with bidders during that process and evaluation criteria for the award of the licence. The extent of DETI's support for the project, involvement in the process to date and engagement with the department was also noted. A query relating to the postalisation of the costs for the high pressure pipeline was also clarified.
- 9.3 The board noted the update on the launch of the licence award process and the legal risks. It was noted that a paper setting out arrangements for the convening of a committee to award the licences would be presented at the March meeting of the board.

10. GENERATING UNIT AGREEMENTS

- 10.1 Jo Aston introduced an update on the potential cancellation of the remaining generating unit agreements (GUAs).

10.2 Board members discussed both the economic and consumer impact of potential cancellation. There was also a discussion on the role and costs of Power NI's Power Procurement Business (PPB) and the implications for PPB of any decision to cancel the remaining GUAs. A query in respect of any decision on GUAs, and the impact on the development of the integrated single electricity market (I-SEM), was addressed.

10.3 The board noted the update and the intention to consult on the potential cancellation of the remaining GUAs. It was also noted that the SEM Committee would be kept informed on the progress of the consultation.

11. ENERGY SUPPLIER CODES OF PRACTICE

11.1 Kevin Shiels introduced this briefing regarding the publication of the consultation on the implementation of energy supplier codes of practice.

11.2 Board members discussed the overall approach being adopted in the codes of practice consultation and the intended outcome.

11.3 It was agreed that the draft codes of practice should be shared with board members for comment, prior to issue for consultation.

12. MINUTES

12.1 The minutes of the meetings on 12 December 2013 and 22 January 2014 were approved for publication.

13. ACTION POINTS

13.1 All of the action points were complete.

14. REPORT FROM THE EXECUTIVE TEAM

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

14.2 The board's attention was drawn to the following aspects of the executive team report: the conclusion of the GD14 price control process, an investor note from Moodys (to be circulated to the board), the update on the Competition Commission's RP5 inquiry and engagement with NIE, progress on the development of I-SEM and plans to brief the ETI Minister and then the ETI Committee and, a report of a recent meeting of the UK Regulation Network CEOs.

14.3 Board member queries in respect of a formal billing dispute, the review of consumer representation and the appointment of a Reporter for NI Water were all addressed. It was agreed that guidance provided to staff on developing board papers should be made available to the board.

14.4 There was agreement that it was important that more information be provided to the board on progress towards the development of the I-SEM.

14.5 Donald Henry provided an overview of the finance and performance report which was reviewed and approved. In particular, he noted the current budgetary position and provided an update on key budgetary assumptions. He also informed the board of a review of the approach to risk management and noted the latest position iro the delivery of FWP targets. Finally he indicated that there were plans to enhance the presentation of finance and performance information to the board.

15. REPORT FROM BOARD SUB-COMMITTEES

15.1 Richard Rodgers provided a verbal report on meeting of the Audit Committee which had taken place the previous day. He indicated that the committee had reviewed the draft budget for 14/15 and had also discussed a report from internal audit, the terms of reference for the audit committee, the NIAO audit strategy and cyber security.

16. ANY OTHER BUSINESS

16.1 None

There being no other business the meeting concluded at 1.25 pm.