**MINUTES OF A MEETING OF THE NORTHERN IRELAND AUTHORITY FOR UTILITY REGULATION (THE ‘AUTHORITY’) HELD ON THURSDAY, 10 MARCH  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), Natalie Dowey (agenda item 4), Michael Campbell (agenda item 5), Leigh Greer (agenda item 8), Jody O’Boyle (agenda items 10 and 11), Ciaran MacCann (agenda item 11), Barbara Cantley (agenda item 13), Colin Broomfield (agenda item 14).

1. **APOLOGIES FOR ABSENCE**

1.1 None

1. **FIRE DRILL**
	1. The board members were informed of the evacuation procedures which apply at Queens House in the event of a fire.
2. **DECLARATIONS OF INTEREST**
	1. Tanya Hedley declared a potential conflict of interest in relation to agenda items 4 and 5 and voluntarily withdrew from the board meeting during discussion on those items.
3. **POWER NI POWER PROCUREMENT BUSINESS (PPB) PRICE CONTROL – LICENCE MODIFICATIONS**

4.1 Jo Aston introduced this paper which sought the board’s approval to publish licence modifications to give effect to the PPB price control determination.

4.2 She outlined the context for the publication of the licence modifications and clarified the impact on consumers.

4.3 The board approved the proposed licence modifications.

1. **POWER NI PRICE CONTROL - SCOPE**

5.1 Kevin Shiels introduced this item which provided a verbal update on developments in respect of the scope of the Power NI price control.

5.2 Board members clarified the size of each customer group and sought further information on engagement to date with Power NI.

5.3 The board noted both the update and the intention to provide a paper on the price control to the April meeting of the Board Advisory Forum (BAF).

5.4 The board also noted the publication earlier this morning of the Competition and Markets Authority’s (CMA) provisional findings in respect of its energy market inquiry. There was a brief discussion on the provisional findings and it was agreed that the CMA’s inquiry would be discussed at the April BAF meeting also.

1. **DRAFT FORWARD WORK PROGRAMME 2016-2017**

6.1 Jenny Pyper introduced this paper which sought the board’s approval for the draft Forward Work Programme 2016-2017 following public consultation.

6.2 The board noted the responses to the consultation on the FWP. Changes to the FWP from the original draft were clarified.

6.3 It was agreed that further narrative should be included in the final draft to reflect the input from the consultation and the extent to which relevant responses led to changes. The need to review the drafting of the foreword and some other minor drafting points were noted.

6.4 The board approved the final draft of the FWP as presented, noting that it would be subject to a final drafting review before publication.

**7. DRAFT 2016-2017 BUDGET**

7.1 Donald Henry introduced the draft 2016-2017 budget. He outlined the key features of the budget and plans to monitor and review in-year spending.

7.2 The impact of the proposed I-SEM expenditure on the overall budget was discussed. Board member queries in respect of estimated I-SEM spending were addressed. The timing of spending on the I-SEM and the scope for budget adjustment were also discussed.

7.3 Queries in respect of the mechanism for the in-year review and any adjustments to licence fees were also addressed.

7.4 Finally, the board noted the recent annual spending profile. In that context, the potential for future budgets to reduce, as I-SEM commitments lessened in line with the project’s scheduled go-live date in late 2017, was discussed.

7.5 With all queries addressed the board approved the budget as presented.

**8. I-SEM GOVERNANCE AND LICENSING – THE EIRGRID GROUP**

8.1 Jo Aston introduced this item on potential conflicts of interests for Eirgrid in its position as Transmission System Operator (TSO) and owner of SONI, operator of the Single Electricity Market and developer of the East-West Interconnector.

8.2 The current Eirgrid structure, interactions involving Eirgrid (where there may be a possible conflict of interest) and potential mitigation measures were outlined.

8.3 Board members discussed the various interactions involving Eirgrid and clarified structural and personnel roles. Queries about relevant obligations in respect of SONI’s operating licence were addressed. There was agreement that the focus should be on addressing potential conflict of interests arising from the relationship between Eirgrid and SONI.

8.4 The board discussed the options for mitigating potential conflict of interests. Board members agreed that it was critical that SONI had a demonstrably independent board. A note setting out the possible measures to demonstrate independence was tabled. Board members endorsed the note as a basis for evidencing the independence of the SONI board with the following additions: the board should have a chairperson who was a non-executive, who was not a member of the Eirgrid plc board and comprised non-executive members who were clearly focused on SONI interests.

8.5 It was agreed that a note reflecting the board’s guidance on SONI independence would be circulated for review. It was then agreed that this would provide the basis for engaging with SONI on the independence issue.

**9. FUEL SWITCHING AGREEMENTS**

9.1 Jo Aston introduced this item which sought the board’s agreement for a generic fuel switching agreement between SONI and a service provider.

9.2 Further information and clarification was sought by board members in respect of the requirement to introduce fuel switching agreements, the testing of agreements and compensation arrangements.

9.3 With clarification provided, the board was content to approve the generic fuel switching agreement provided and the revocation of a related interim regulatory letter (dated 13 December 2011).

**10. LANDBANK UPDATE**

10.1 Jody O’Boyle provided an update on the Coolkeeragh and Belfast West landbank sites.

10.2 The board commented on recent developments and clarified issues in respect of environmental compliance and long-term financial liabilities.

10.3 In noting the update, the board made clear its expectation that discussions on developments to the land bank sites would be expedited in the a timely manner.

**11. ELECTRICITY CONNECTIONS UPDATE**

11.1 Ciaran MacCann provided an overview of progress in respect of opening up electricity connections to competition and also on connections disputes.

11.2 Given the ongoing developments associated with the closure of the Northern Ireland Renewables Obligations, board members explored the consequences of the policy decision.

11.3 The board noted the update.

**12. GAS SUPPLY PRICE CONTROLS – MARGINS**

12.1 Kevin Shiels and Michael Campbell initiated a discussion on this paper which sought the board’s view on the calculation of an appropriate margin for gas supply companies.

12.2 The board explored the options for assessing the capital base of the companies (such as around customer acquisition costs). The basis for benchmarking the companies was also discussed. Issues around the treatment of contingent capital were also explored.

12.3 There was also discussion on the Competition and Market Authority’s (CMA’s) position in respect of a fair return for a supply business.

12.4 The board endorsed the position that the return for the gas supply businesses should be consistent with the principles outlined by the CMA. This would be reflected in a minded-to paper to be discussed by the board advisory forum at its April meeting.

**13. RETAIL QUARTERLY TRANSPARENCY REPORT**

13.1 Kevin Shiels and Barbara Cantley briefed the board on the recently published Quarterly Transparency Report.

13.2 Board members discussed the changing profile of aspects of the retail supply market and the reasons for this. The reasons for reducing levels of consumer switching in some customer segments were also explored. An update was provided on plans for the implementation of a more comprehensive retail energy market monitoring framework.

13.3 The board noted the report.

**14. I-SEM CRM/ SECURITY OF SUPPLY**

14.1 Jo Aston and Colin Broomfield provided a presentation on I-SEM in respect of the Capacity Remuneration Mechanism (CRM) and local Security of Supply issues. The presentation focused on the current position regarding supply capacity and auction arrangements under the CRM.

14.2 Much of the board’s discussion was around the consequences for security of supply, investment intentions and CRM arrangements in the absence of, or a delay to the construction of, a second north-south interconnector. Board members explored the options for mitigating risks in this context.

14.3 The board noted the presentation.

**15. GD17 UPDATE**

15.1 Brian McHugh provided a presentation by way of update on the GD17 gas distribution price control. The presentation provided updated figures on high level aspects of the price control.

15.2 Board member queries on the level of connections, the rate of return, financeability issues and capital investment allowances were addressed.

15.3 The board also sought information on the engagement with the gas distribution companies and feedback on the meetings that have taken place.

15.4 Briefing was provided on next steps in the GD17 process and the publication of the draft determination for publication.

15.5 The board endorsed the high level figures as presented and noted the overall GD17 update.

**16. MINUTES**

16.1 The minutes of the board meeting on 11 February 2016 were agreed for publication.

**17. ACTION POINTS**

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

**18. ISEM UPDATE**

18.1 A brief verbal report was provided by Jo Aston on the overall progress of the I-SEM project, key developments and stakeholder engagement.

**19. REPORT FROM THE EXECUTIVE TEAM**

19.1 Jenny Pyper provided an overview of the Executive team report. She noted the extensive media coverage of recent pricing and other announcements.

19.2 The closure of the Northern Ireland Renewables Obligation and the impact of this was noted.

19.3 Engagement with SONI on the price control and an update on the planning inquiry, in respect of the second north-south interconnector, was provided.

19.4 The Enforcement Sub-Committee’s deliberations around potential enforcement action in respect of a regulated company was also noted.

19.5 The board’s attention was also drawn to NI Water licence modification proposals which had recently been endorsed by the Department for Regional Development.

19.6 Progress to implement a Human Relations Strategy was also highlighted.

19.7 The board approved the revised Audit and Risk Committee’s terms of reference.

19.8 The board approved the finance and performance summary, noted the budget position and the assessment of progress against FWP targets. Proposed changes to the corporate risk register were also assessed and approved. It was agreed that a standalone risk paper would be considered by the board at its next meeting.

**20. ANY OTHER BUSINESS**

20.1 It was agreed that the board would discuss the Competition and Market Authority’s provisional remedies publication in respect of its retail energy market review at the April meeting of the board advisory forum.

There being no other business, the meeting concluded at 3.00pm.