**MINUTES OF A MEETING OF THE NORTHERN IRELAND AUTHORITY FOR UTILITY REGULATION (THE ‘AUTHORITY’) HELD ON FRIDAY, 12 SEPTEMBER 2014 IN QUEENS HOUSE, BELFAST AT 9 AM**

**Present:**

Bill Emery (Chairman), Richard Rodgers, Bill Cargo, Teresa Perchard, David Strahan, Jenny Pyper (Chief Executive)

**In attendance:**

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

Item 4 - Kenny Dane, Items 4 and 5 – Colin Broomfield, Items 6 and 10 – Jody O’Boyle

Item 7 – Lesley Robinson, Item 8 – Paul Harland

1. **APOLOGIES FOR ABSENCE**
	1. None.
2. **FIRE DRILL**
	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**
	1. None.
4. **GENERATING UNIT AGREEMENTS (GUAs)**
	1. Jo Aston introduced this paper on GUAs. She reminded the board of previous discussions on the issue and provided an update on developments since the last substantive board discussion in June. Given the developments since June the board was asked to approve a recommendation to not cancel the GUAs at this time.
	2. Board members sought further information on Power NI’s Power Procurement Business (PPB) proposals in respect of the reduction in overhead costs and the gain share mechanism. There was also a general discussion around the future outlook for the GUAs.
	3. Following the discussion, the board agreed that it would not cancel the GUAs at this time and that they would be kept under review. There was a brief discussion on the communications of the board’s decision.
5. **SECURITY OF SUPPLY**

5.1 Jo Aston introduced this paper which sought the board’s approval of a recommendation to support the proposal by the System Operator for Northern Ireland (SONI) to alleviate security of supply risks from 2016.

5.2 A significant discussion ensued around clarifying the costs of the proposal, understanding the security of supply risks and the impact on consumer bills of supporting the SONI proposal.

5.3 Board members clarified the scope of the proposal and what was being delivered for the costs incurred. There was a discussion of the risk around costs and the utilisation of the additional capacity margin. The process for assessing the costs of the proposal was raised. Issues associated with the time period under which there was a contractual obligation to provide the additional capacity margin, and the impact on the overall market, were also discussed.

5.4 A broader discussion on security of supply risks also took place. This focused on the ongoing impact of the reduced capacity from the Moyle Interconnector and delays in the construction of the second north-south electricity interconnector. Board members were briefed on plans to restore the Moyle Interconnector to full capacity and the impact on consumer bills.

5.5 The board reflected on the need to balance security of supply risks with the likely impact on consumer bills. The need to consider both direct (higher consumer bills) and indirect costs (the potential loss of investor confidence in Northern Ireland) of any power outages was emphasised. It was agreed that addressing security of supply risks at least cost was fundamental to the Authority’s role.

5.6 Finally, board members clarified issues in respect of the process for advancing arrangements to secure additional generation margin and an update to SONI’s Generation Adequacy Statement.

5.7 The board approved the recommendation, subject to agreement with the Department of Enterprise, Trade and Investment, to support the proposal by SONI to alleviate security of supply risks from 2016.

**6. NI CLUSTER CAPITAL EXPENDITURE REQUEST**

* 1. Jody O’Boyle provided the background briefing on this request for the board’s approval of construction capital expenditure.
	2. The board discussion focused on three issues: (1) the process for advancing the development of the clusters, (2) the cost benefits to customers and (3) the mechanism for charging for the construction costs and, specifically, the allocation of development costs to the regulatory asset base.
	3. The Board approved the construction capital expenditure as outlined. The Board also agreed an amendment to the scheme of delegation to clarify that board approval for similar expenditure requests would only be required where the impact on the RAB is over the delegated limit.

**7. DRAFT DETERMINATION FIRMUS SUPPLY LTD**

7.1 Kevin Shiels introduced this item which set out the key principles and approach relating to a draft determination for the firmus supply ltd price control for discussion by the board.

7.2 Much of the board discussion concentrated on the assessment of operating expenditure. Board members discussed the detailed presentation of the operating expenditure profile and the challenge of setting a cost base for a supply company which was also affiliated to another energy company. In this context, the basis for identifying and setting efficiencies was also explored.

7.3 Board member queries in respect of communication with firmus and the impact of the price control assessment on consumer bills were also addressed.

**8. GD17 APPROACH**

8.1 Brian McHugh introduced this paper which set out the key issues to be considered in the consultation document on the approach to the GD17 (gas distribution networks) price control. He specifically updated the board on engagement with stakeholders to date and the next steps in the process.

8.2 The board discussed the connection policy approach and the connection incentive. On the connections policy issue board members sought clarification on the extent to which this aligned with broader government policy initiatives. The risks associated with the connection incentive were also discussed.

8.3 Opportunities for consumer engagement were raised. In this respect the experience of consumer engagement by other regulators, and on other price controls carried out by the Authority, were discussed. The timing of such engagement was also mentioned.

8.4 Board members also discussed the presentation and communication of the Authority’s position on the rate of return. There was agreement that the approach paper should highlight the significance of the rate of return as an issue.

8.5 It was also suggested that further narrative should be provided to justify the time period for the price control.

8.6 Finally, the proposed timetable for progressing the price control was discussed.  It was agreed that further papers on GD17 would be discussed at future board and BAF meetings including discussion in advance of the decision paper on the Approach..

**9. COST AND PERFORMANCE REPORT**

9.1 Tanya Hedley provided an overview of this information paper which set out the approach to the Cost and Performance report for NI Water for 2013-14.

9.2 The board noted the paper.

**10. NORTH ATLANTIC GREEN ZONE FUNDING**

10.1 Jody O’Boyle introduced this information paper regarding a smart grid proposal to Europe for part funding. The proposal is known as the North Atlantic Green Zone.

10.2 Board members discussed the costs and potential benefits of the proposal and noted that a further paper would be provided to the board at a later date.

**11. ASSESSMENT OF BOARD EFFECTIVENESS UPDATE**

11.1 Greg Irwin briefed the board on progress regarding the actions emerging from the board review of effectiveness. It was noted that the focus of further work on risk would be on risk appetite.

11.2 The board noted the update.

**12. MINUTES**

12.1 The minutes of the meeting on 12 September 2014 were approved for publication.

**13. ACTION POINTS**

13.1 The action points were reviewed. It was noted that the board would discuss the price control approach paper before the end of the year.

**14. REPORT FROM THE EXECUTIVE TEAM AND FINANCE AND PERFORMANCE SUMMARY**

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 Updates were provided in respect of the I-SEM and Gas to the West. There was a discussion around timing issues associated with the delivery of the I-SEM and board members clarified the next steps in the Gas to the West process.

14.3 The board were briefed on the public communication of recent electricity and gas tariff reviews.

14.4 An update on the PC15 price control was also provided. The board discussed the broader public expenditure environment and the potential impact on NI Water’s budget.

14.5 Board members were also briefed on recent engagement with the UK Regulators network (UKRN) and UK Competition network (UKCN).

14.6 Board members noted and approved the finance and performance summary which included the year to date budget position, staffing and absence figures, the draft corporate risk register and the assessment of progress against FWP targets. It was also noted that the mid-year review of the budget would be finalised by the next board meeting.

**15. ANY OTHER BUSINESS**

15.1 Richard Rodgers provided an overview of the audit committee which took place on the day prior to the board meeting.

15.2 A short meeting review was conducted focusing on agenda and the presentation of papers.

There being no other business the meeting concluded at 1.10 pm.