NORTHERN IRELAND AUTHORITY FOR ENERGY REGULATION

RESOURCE ACCOUNTS
For the year ended
31 March 2004

Laid before the Houses of Parliament by the Department
of Finance and Personnel in accordance with paragraph 36
of the schedule to the Northern Ireland Act 2000
(Prescribed Documents) Order 2004

11 November 2004

Laid before the Northern Ireland Assembly by the Department of
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Resource Accounts
for the year ended 31 March 2004

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ANNUAL REPORT

Introduction

These Resource Accounts have been prepared and published by The Northern Ireland Authority for Energy Regulation (NIAER). The Accounts have been prepared under a direction issued by the Department of Finance and Personnel and in accordance with the guidance set out in the Northern Ireland Resource Accounting Manual (NIRAM). The accounts demonstrate the resources that have been used to deliver NIAER's objectives. This document should be read in conjunction with the NIAER Annual Report for 2003 – 04, which is published separately.

Departmental Boundary

The Departmental boundary is determined by the way in which in-year budgetary control is exercised by the Authority and for the year 2003-04 no other organisation was considered within the boundary:

HISTORY OF THE DEPARTMENT

Status

This is the first set of Resource Accounts prepared under the auspices of the Northern Ireland Authority for Energy Regulation (the Authority).

The offices of the Director General of Electricity Supply for Northern Ireland and the Director General of Gas for Northern Ireland were abolished on 31 March 2003 and replaced by the Northern Ireland Authority for Energy Regulation, a body corporate empowered under the Energy (Northern Ireland) Order 2003 (the Energy Order) to independently regulate both the electricity and gas industries on behalf of the Crown.

Mr Douglas McIldoon who previously held the posts of Director General of Electricity Supply for Northern Ireland and Director General of Gas for Northern Ireland was appointed as the full time chairman of the new Authority. The Authority consists of a full time Chairman and 5 Non – Executive Directors all of whom were appointed by the Department of Enterprise Trade and Investment (DETI). The office of the Authority will continue to be known as the Office for the Regulation of Electricity and Gas (OFREG). All OFREG staff are seconded from DETI or the Department of Finance and Personnel (DFP).

The Chairman of the NIAER has been appointed as its Accounting Officer.

The Order also abolished the role of the Northern Ireland Consumer Committee for Electricity and enhanced arrangements for consumer representation were vested in the General Consumer Council for Northern Ireland which was required to abolish its existing energy group and form a new group in connection with its new functions under the Order.

The Authority is enabled to recover, on behalf of The General Consumer Council for Northern Ireland (GCCNI), costs identified as relating to that part of its work on electricity and gas consumer issues.

Departmental Reporting System

The Authority is required by Article 6 of the Energy Order to produce and publish an Annual Report, which details how the Authority has performed over the past financial year this is a change from the preceding legislation which required reports to be completed on a calendar year basis.

In addition to the Annual Report the Energy Order requires the Authority to produce and publish a Forward Work Programme for each financial year commencing 2004/2005, but before doing so it must consult on a draft of the Programme in time to allow it to consider any representations or objections made.

A Forward Work Plan for 2004/2005 has been completed in accordance with legislation. It describes the Authority's objectives as defined in The Energy Order, it identifies the main priorities which the Authority consider important in working towards those objectives and it itemises and describes the specific projects and their objectives which the Authority plans to undertake in the year commencing 1 April 2004. It also includes in Chapter Three an estimate of the overall expenditure which the Authority expects to incur during the year.
The 2004/2005 Annual Report will focus on recording performance against targets as set down in the Forward Work Plan.

The Forward Work Plan is available from the Authority website – http://ofreg.nics.gov.uk. The Annual Report will be published in conjunction with the accounts and will be available from this office in hard copy or an electronic version will be downloadable from the website.

As 2003/04 was the first year of operation of the Authority, the Annual Report measures performance in a general manner rather than against specific measures, in future years performance will be measured against Forward Work Plan specific targets.

Operating and Financial Review

The work of the Authority is set out in the Electricity (Northern Ireland) Order 1992 and the Gas (Northern Ireland) Order 1996 both as amended by the Energy (Northern Ireland) Order 2003.

The Authority is required to make a full review of its activities in an annual report presented to DETI which is in turn laid before the assembly. This report is made on a financial year basis.

The Authority is independent of Ministerial control and as a non-ministerial government department the Authority's objectives are determined by the Authority and flow from the duties set out in the respective Electricity and Gas Orders as amended by the Energy Order. In summary the Authority has two main objectives:

- **To protect the interests of electricity consumers with regard to price and quality of service by promoting competition in the Generation and Supply of Electricity; and**

- **To promote the development and maintenance of an economic and co-ordinated gas industry and to protect the interests of gas consumers with regard to price and quality of service.**

Activities

The main duties of the Authority as set out in the Energy Order are:

- ensuring that all reasonable demands for electricity are satisfied;
- promoting competition in generation and supply while ensuring that the public electricity supplier is not competitively disadvantaged and that prices charged to customers do not distinguish between different areas within Northern Ireland.
- promoting the development and maintenance of an efficient and co-ordinated gas industry in Northern Ireland; and
- ensuring that electricity and gas licensees can finance their licensed activities.

Financial Review

The Authority's financial performance in pursuit of its objectives as detailed in Schedule 5 was as follows: - £1,273,000 (£1,381,000 in 2002/03) for Objective A - Electricity and £726,000 (£493,000 in 2002/03) for Objective B – Gas. This reflects a significant rise in work associated with promoting the development of the gas industry.

The Operating Cost Statement (Schedule 2) shows that salaries and administrative costs were similar to the previous year - £1,207,000 for 2003/04 against £1,214,000 for 2002/03. The programme costs have risen significantly from £660,000 in 2002/03 to £792,000 in 2003/04 – the most significant element was a rise in legal fees due to increase volume of work requiring legal expertise on the gas promotion side. The proportion of salary and other administrative costs has fallen to 60% of total costs in comparison with 65% in 2002/03.

The Authority's net resource outturn was £494,000 (Schedule 1) against an estimate of £500,000, resulting in a saving against estimate of £6,000. The net resource outturn reflects the cost borne by central government in respect of work undertaken by the Authority which is not yet recoverable from a licensee or group of licensees.

Fixed Assets

Details of the movement of fixed assets are set out in Note 11 to the Accounts.
There were £17,000 of additions to fixed assets during the financial year consisting mainly of computer replacement across the Department.

NORTHERN IRELAND AUTHORITY FOR ENERGY REGULATION

Funding

As a non-ministerial Government Department, the Authority's funds are voted by Parliament and accounted for on an annual basis through the Resource Account.
Receipts from electricity and gas licensees, which are classified as CFERs within the respective Orders, have, in line with a treasury direction using its powers under the 1920 Treasury Act, been reclassified as Accruing Resources. To put this into effect DETI nominated the Director General of Electricity Supply (now the Authority) as its agent to collect licence fees on its behalf. These were licence fees due to DETI in respect of licences issued by it at the time of privatisation of the electricity industry. Gas licences issued by DETI and the Director General of Gas both provided for licence fees to be paid to the Director (now the Authority). Prior to this electricity and gas licence fees were paid directly into the Northern Ireland Consolidated Fund by the respective organisations.

The Authority's expenditure is therefore primarily offset by annual licence fees paid by the electricity and gas licensees and recovered from electricity and gas customers. Licence fees are set annually by a determination made by the Authority – the income received from licence fees in year in 2003 – 04 was £1.5 million this figure represents the nett amount after deducting fees already overpaid by licensees in respect of 2002 - 2003.

Operating Review

During the year under review the Authority, which came into being on 1 April 2003, held seven executive meetings at its headquarters in Belfast, one at Coolkeeragh Power Station to facilitate a tour of the station and one at the ESRI offices in Dublin to facilitate a discussion on the proposed new Market arrangements for Electricity in the Republic of Ireland and the interface with the electricity market in Northern Ireland. Summary versions of the minutes of these meetings are available from the website. At its first meeting in April 2003 the Authority also formalised the setting up and programme for its audit committee. The Authority also issued some fifteen consultation and decision papers all of which are available from the website. The Authority also issued a challenge to DETI regarding the contents of its paper entitled a New Energy Strategy for Northern Ireland and stressed that while keen to champion renewables it did not feel that the proposed Northern Ireland Renewables Obligation (NIRO) was a cost effective way to promote renewables.
The Authority was also keen, following the success of the Moyle Interconnector, to take forward the mutualisation of the Scottish to Northern Ireland gas Pipeline (SNIP). With the judicial review of the Authority's decision to grant "Preferred Bidder Status" to Bord Gais Eireann (BGE) in respect of the North West pipeline licence successfully defended it sought to negotiate the financial restructuring of Phoenix Gas and the new licensing arrangements for both it and BGE. The Authority also sought to challenge the Department for Environment, Food and Rural Affairs (DEFRA) about its concerns over the allocation of carbon emission permits for Northern Ireland.
The Authority had numerous meetings with leading influencers in the energy world and had attendees at specially selected events.

Promoting competition in the generation and supply of electricity.

The Authority continued to work towards the further liberalisation of the electricity generation and supply markets in 2003/04, by reviewing the arrangements to facilitate the trade in renewable electricity and extend customer choice to allow the purchase of "renewable only" energy. By the end of the year renewable sales accounted for 4% of the electricity consumed in Northern Ireland.

The Authority monitored the operational procedures in the liberalised sector of the market and continued to receive feedback from the industry via regular meetings with the "IME (Internal Market in Electricity) Group", a consultative panel composed of industry, users and DETI participants.

The Authority continued its quest to ensure the adequacy of generation in Northern Ireland by setting out its decisions in a paper dated 8 July 2003 and also by requesting System Operator Northern Ireland (SONI) to publish a seven-year system capacity statement and investigate the adoption of a loss of load expectation (LOLE) standard similar to that adopted in most European countries.

The Authority continued to observe how the new "not for profit" company Moyle Holdings Ltd, the holder of only the second transmission licence issued in Northern Ireland carried out its affairs, and in addition continued with its annual review of interconnector allocation arrangements. The Authority considers "Moyle" to be another success story for Northern Ireland electricity consumers.

The Authority published a paper in February 2004 which set out details of further electricity market opening in Northern Ireland designed to meet targets set by EU Directives, with the continued aim of achieving 60% market opening during 2004/05.

Promoting the Development and Maintenance of an Efficient Economic and co-ordinated gas industry and protecting the interests of gas consumers with regard to price and quality of service

During the year the Authority successfully defended a judicial review of its decision to confer "preferred bidder" status on Bord Gais Eireann's application for a licence to distribute and supply gas to potential consumer nodes outside the Greater Belfast area. The Authority also continued its quest to promote the expansion of the natural gas industry throughout Northern Ireland by inviting applications from prospective licensees for the granting of supply licences in respect of towns along the route of the north west and south north gas pipelines.
In October 2003 , the Authority issued a decision paper on the implementation and operation of a postalised tariff system for the Northern Ireland transmission network. A common tariff will facilitate the construction of the transmission pipeline to the Coolkeeragh Power Station in the Northwest and will take effect from October 2004.

A more detailed analysis of the Authority's work during the year is contained in its Annual Report for 2003 – 2004 a printed copy of which can be purchased at a cost of £17.50 from the Authority's office by contacting us by phone 028 90311575 or by writing to the Finance & Admin Section, NIAER, Brookmount Buildings, 42 Fountain Street, BELFAST, BT1 5EE or can be downloaded free from the Authority's website http://ofreg.nics.gov.uk.

Pension Liabilities

The Department is covered by the Northern Ireland Civil Service Pension Scheme (PCSPS (NI)) and bears the cost of pension provision for its staff by payment of an Accruing Superannuation Liability Charge (ASLC).

Important Events Occurring After Year End

There have been no significant events since the year-end which would affect these accounts.

Investment for the future

The Authority will continue to invest in employee training and development in order that staff can develop appropriate knowledge and skills to enable the Authority to meet its key objectives. The Authority will also continue to invest in and develop its IT infrastructure.

Management

The Energy (Northern Ireland) Order 2003 ('The Energy Order') established the Northern Ireland Authority for Energy Regulation ('the Authority') from 1 April 2003 and at the same time abolished the offices of Director General of Electricity Supply and Director General of Gas for Northern Ireland. The Energy Order amended the Electricity (Northern Ireland) Order 1992 and the Gas (Northern Ireland) Order 1996 and transferred most of the functions described in those Orders to the Authority, and in addition transferred the assets and liabilities of the Directors General to the Authority.

The Authority's Chairman and members were appointed by DETI. The Chairman has been authorised to undertake the day to day running of the Authority's administration, which continues to be known as Ofreg. He is known informally as Chief Executive. Ofreg is staffed by the team of Civil Servants who previously supported the Directors General.

Mr Douglas McIldoon was appointed Chairman of the Authority on 1 April 2003 and he together with the five Non Executive Directors - Mr Charles Coulthard, Mr John Fitzgerald, Mr John Gilliland, Mr Peter Lehmann and Mrs Joan Whiteside make up the Authority. The Authority's chairman and members are remunerated in line with Senior Civil Service payscales. The Audit Committee is chaired by Mr Charles Coulthard and comprises Mr John Gilliland and Mrs Joan Whiteside and Mr Eddie Gaw (Accountant).
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Management Board

The Department's management board which held its inaugural meeting in December 1998 is made up of the Chief Executive, Deputy Chief Executive and the heads of each division within Ofreg and meets on a regular basis. During the period under review the board consisted of the following individuals Douglas McIldoon, Dermot MacCann, Eddie Gaw, Kevin Shiels, Eamon Corrigan, James Hutchinson and Gerry Donnelly. Details of the remuneration of the Authority members and senior managers are provided in Note 2 to these accounts.

Equal Opportunities

The Department is an Equal Opportunity employer. It is fully committed to the elimination of all forms of discrimination, harassment and victimisation, not only because of the legal requirements under which it operates, but because it makes sound business sense and ensures that working relationships are based on mutual trust, respect and understanding. This allows the best use to be made of the wide variety of skills, abilities and attributes available in the Department and promotes a harmonious working environment.

Disabled Persons

The Department's Equal Opportunities policy applies to the employment of people with a disability. The Department is committed to ensuring that its policies and practices comply with the requirements of the Disability Discriminations Act 1995.

Employee Involvement

The Department recognises the benefit of keeping all its employees regularly informed about progress towards achieving its aims and objectives. The Department circulates the agenda for each board meeting to all staff in advance to encourage participation and also circulates the ensuing minutes to all staff. The minutes of the Executive meetings are also circulated to staff.

Health and Safety

The Department is committed to applying all existing health and safety at work legislation and regulations to ensure that staff and visitors enjoy the benefits of a safe environment. The Department has circulated to all staff a Health and Safety Policy Statement and associated Organisation and other Arrangements to ensure safe and healthy working conditions.

Payment to Suppliers

The Department is committed to the prompt payment of bills for goods and services received in accordance with the Late Payment of Commercial Debts (Interest) Act 1998 and British Standard BS 7890 – Achieving Good Payment Performance in Commercial Transactions. Unless otherwise stated in the contract, payment is due within 30 days of the receipt of the goods or services, or on presentation of a valid invoice or similar demand, whichever is later. During the year, 96% per cent of bills were paid within this standard.

Equality Scheme

The Authority has produced an equality scheme as required by Schedule 9 of the Northern Ireland Act 1998 (the Act). This scheme sets out how they propose to fulfil the duties imposed on them by section 75 of the Act. The scheme has been approved by the Equality Commission and is available in either paper or electronic format. It is also available on request in a variety of alternative formats.

External Auditor

Under section 10 of the Government Resource and Accounts Act (Northern Ireland) 2001, the Comptroller and Auditor General for Northern Ireland is the statutory auditor for the Department.

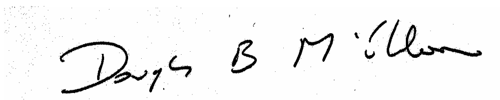
Internal Audit

The Internal Audit of the Authority is carried out on a contract basis. Following a tender exercise, a local company of professional accountants and auditors Helm Corporation, an organisation which operates to standards defined in the Government Internal Audit Manual, was successful and will carry out the Internal Audit function for the next 3 years.

Register of Interests

The Authority maintains a Register of Interest containing details of company directorships and any other significant interests held by Non Executive Directors, public access to this register can be obtained by contacting the Authority.

Douglas B McIldoon



Accounting Officer ________________________________ Date: 13 October 2004

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES WITH RESPECT TO RESOURCE ACCOUNTS FOR THE NORTHERN IRELAND AUTHORITY FOR ENERGY REGULATION

1. Under the Government Resources and Accounts Act (NI) 2001, the Authority is required to prepare resource accounts for each financial year, in conformity with a DFP direction, detailing the resources acquired, held, or disposed of during the year and the use of resources by the Department during the year.

2. The Resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department, the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

3. DFP has appointed the Chairman of the Authority as Accounting Officer of The Authority, with responsibility for preparing the Authority's accounts and transmitting them to the Comptroller and auditor General.

4. In preparing the accounts the Accounting Officer is required to comply with the Northern Ireland Resource Accounting Manual (NIRAM) prepared by DFP, and in particular to:

   - observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

   - make judgements and estimates on a reasonable basis;

   - state whether applicable accounting standards as set out in the NIRAM have been followed, and disclose and explain any material departures in the accounts; and

   - prepare the accounts on a going concern basis.

5. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets are set out in the Accounting Officers' Memorandum issued by DFP and published in "Government Accounting Northern Ireland".

STATEMENT OF INTERNAL CONTROL

1. Scope of responsibility

As Accounting Officer I have responsibility for maintaining a sound system of internal control that supports the achievement of the Authority's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible in accordance with the responsibilities assigned to me in Government Accounting.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realized and the impact should they be realized, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Authority for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts and accords with DFP guidance.

3. Capacity to handle risk

The Authority has established the following processes to ensure that leadership is given to the risk management process and that staff are trained to manage risk in an appropriate manner: -

- Members of the Authority, meet at least ten times a year to consider the Authority's plans and overall strategic direction and the Management Committee which meets on a monthly basis to manage all resource and operational issues
- a Corporate Work Plan set by the Authority with clear aims, objectives and deliverables;
- Extending the programme of facilitated risk workshops to include both staff and Non Executive Directors;
- The inclusion of risk and risk control issues as agenda items at Management and Audit Committee meetings;
- The Authority consults fully with its stakeholders before finalising its decisions and this process of consultation acts as a very effective risk management tool;
- Formal internal review of risk register and risk management strategy;
- The development of Branch Plans with key objectives and targets linked to the Forward Workplan and Risk Register;
- The development of personal job objectives for each member of staff, linked to the relevant Branch Plan and Forward Work Plan.

4. The Risk and Control Framework

The Authority identifies, evaluates and controls risks in the following ways:

- a detailed annual budget and key performance indicators and outputs which will be identified in the Forward work plan and then monitored through the year in routine management information systems that inform the Authority, Management Committee and Audit Committee;
- a formal risk management strategy that identifies key risks and their consequences. These are recorded in a risk register and current risk status is reviewed every six months by the Management Committee and annually by the Authority and its Audit Committee. The risk register has been the subject of a formal review by the Audit Committee, resulting in significant changes to the original risk register – these revisions have been positively commented on by Internal Audit;
- all new projects require a project impact assessment as part of their initiation documentation and this includes a review of all material risks involved in the project and its objectives;
- a properly constituted Audit Committee comprising non-executive members of the Authority which reports directly to the Authority;
- independent Internal Audit (provided under contract by Helm Corporation) reports to the Audit Committee to standards defined in the Government Internal Audit Manual and agrees a rolling programme of audit for each forthcoming year according to the Committee's priorities;
- the Audit Committee conducts a yearly review of the audit programme, including an assessment of general risk, and an opinion on the adequacy and effectiveness of the system of internal control together with recommendations for improvement,
- the Authority has outsourced its procurement and tendering function to the Central Procurement Directorate (DFP) which was set up to standardise procedures for the selection, management and performance assessment of such consultants;
- the Authority has implemented an upgraded accounting system with significantly enhanced reporting modules in order to improve the provision of management information.

As part of the Authority's maintenance and development of risk management, a key change which came into effect during the reporting year was the appointment of a full-time professional accountant, further key changes which will come into effect in the next financial year are;

- Extending the programme of facilitated risk workshops to include both staff and Non Executive Directors;
- Review of risk register and risk management strategy by Internal Audit;
- Risk Register progress reports reviewed by Audit committee on a quarterly basis;
- Following a tender process the Authority has secured new Legal Advice providers covering both Electricity and Gas, Wragge and Co. a Birmingham based law firm, has been appointed with effect from 30 June 2003;
- The development of improved management information reporting in the areas of budgeting, costing and accounting.

5. Review of effectiveness

As Accounting officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors, the executive managers within the Authority who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. The internal audit service is contracted out to Helm Corporation, an organisation which operates to standards defined in the Government Internal Audit Manual, who as part of their duties carry out independent checks on the control process on my behalf. The Internal Audit review for 2003/04 gave substantial assurance in all areas except IT, where a limited assurance was received. My management team have accepted the recommendations and are addressing the areas of weakness by migrating to the parent Departmental IT system on relocation of NIAER.
I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.
The Audit Committee ensures that appropriate action is taken to address internal and external findings raised throughout the year.

Accounting Officer: Douglas B McIldoon 13 October 2004

The Certificate and Report of the Comptroller and Auditor General to the House of Commons and the Northern Ireland Assembly

I certify that I have audited the financial statements on pages 16 to 43 under the Government Resources and Accounts Act (Northern Ireland) 2001. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 24 to 28.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 10, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and Department of Finance and Personnel directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Accounts. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and Department of Finance and Personnel directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Accounts, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 11 and 13 reflects the Department's compliance with the Department of Finance and Personnel's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by the Department of Finance and Personnel, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Department in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Northern Ireland Authority for Energy Regulation as at 31 March 2004 and of the net resource outturn**,** resources applied to objectives, recognised gains and losses and cash flows for the year then ended and have been properly prepared in
- accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and directions made thereunder by the Department of Finance and Personnel; and

- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

J M Dowdall CB
Comptroller and Auditor General
15 October 2004

Northern Ireland Audit Office
106 University Street
Belfast BT7 1EU

Schedule 1

Summary of Resource Outturn
for the year ended 31 March 2004

	2003/04							2002 03
	Estimate			Outturn				
	Gross expenditure	Accruing Resources	NET TOTAL	Gross expenditure	Accruing Resources	NET TOTAL	Net total outturn compared with estimate savings/(excess)	Prior –Year Outturn
	1	2	3	4	5	6	7	8
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources A (notes 5 and 8)	2,442	(1,942)	500	1,999	(1,505)	494	6	332
Total resources			**500**			**494**	**6**	**332**
Net cash requirement			**501**			**320**	**181**	**433**

Summary of income payable to the Consolidated Fund

In addition to Accruing Resources, the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics):

		Forecast 2003-04		Outturn 2003-04	
		Income	**Receipts**	**Income**	**Receipts**
	Note	£000	£000	£000	£000
Total	5	-	-	-	-

Explanation of the variation between Estimate and Outturn (Net total resources):
No significant variation to report

Explanation of the variation between Estimate and net cash outturn net cash requirement:
Significant increase in working capital over the year resulted in a decreased cash requirement

The notes on pages 24 to 43 form part of these accounts

Schedule 1 (Continued)

Reconciliation of resources to cash requirement	Note	Estimate £000	Outturn £000	Net total outturn compared with estimate savings/(excess)
Net total resources		500	494	6
Capital				
Acquisition of fixed assets	11 & 12	23	17	6
Non-operating cost Accruing Resources				
Proceeds of Fixed Asset Disposals	11	-	-	-
Accruals Adjustments				
Non-cash items	3	(122)	(74)	(48)
Changes in working capital other than cash	13	100	(117)	217
Net Cash Requirement (Schedule 4)		**501**	**320**	**181**

The notes on pages 24 to 43 form part of these accounts

Schedule 2

Operating Cost Statement
for the year ended 31 March 2004

	Note	2003-04 £000	2003-04 £000	2002-03 £000	2002-03 £000
Administration Costs					
Staff Costs	**2**	827			829
Other administration Costs	**3**	380			385
Gross Administration Costs			**1,207**		**1,214**
Operating Income	**6**		(1,505)		(1,543)
Net Administration Income			**(298)**		**(329)**
Programme Costs					
Request for Resources A					
Expenditure	**4**	792		660	
Less: income		-		-	
Net Programme Costs			**792**		**660**
NET OPERATING COST	**8 & 9**		**494**		**331**
NET RESOURCE OUTTURN	**8**		**494**		**332**

All income and expenditure are derived from continuing operations

The notes on pages 24 to 43 form part of these accounts

Statement of Recognised Gains and Losses for the year ended 31 March 2004

		2003-04	2002-03
Total recognised gains and losses for the Financial year	**Note**	**£000**	**£000**
Surplus on revaluation of tangible fixed assets	**22**	1	2

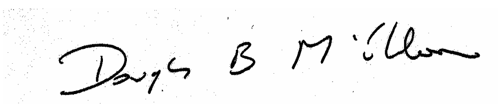
The notes on pages 24 to 43 form part of these accounts

Schedule 3

Balance Sheet as at 31 March 2004

		31 March 2004		31 March 2003	
	Note	**£000**	**£000**	**£000**	**£000**
Fixed Assets					
Tangible assets	**11**	48		58	
Intangible assets	**12**	7		5	
			55		**63**
Current Assets					
Debtors	**14**	121		192	
Cash at bank and in hand	**15**	182		228	
		303		420	
Creditors (amounts falling due within one year)	**16**	(842)		(842)	
Net Current Liabilities			**(539)**		**(422)**
Total Assets less Total Liabilities			**(484)**		**(359)**
TAXPAYERS' EQUITY					
General Fund	**21**		(492)		(368)
Revaluation Reserve	**22**		8		9
			(484)		**(359)**

Douglas B McIldoon



SIGNED: Accounting Officer: 13 October 2004

The notes on pages 24 to 43 form part of these accounts

Schedule 4

Cash Flow Statement for year ended 31 March 2004

	Notes	2003-04 £000	2002-03 £000
Net cash (outflow) from operating activities	(i)	**(303)**	**(417)**
Capital expenditure and financial investment	(ii)	**(17)**	**(15)**
Payments of amounts due to the Consolidated Fund	16	**(8)**	**-**
Financing from the consolidated fund	(iii)	**282**	**519**
(Decrease)/Increase in cash in the period		**(46)**	**87**

Notes to the Cash flow Statement

(i). *Reconciliation of operating cost to operating cash flows*

		2003-04 £000	2002-03 £000
Net operating cost		**(494)**	**(331)**
Adjustments for non-cash transactions	3	74	58
Adjustments for movements in working capital other than cash	13	117	(144)
Use of provision		-	-
Net cash outflow from operating activities		**(303)**	(417)

(ii). *Analysis of capital expenditure and financial investment*

		2003-04 £000	2002-03 £000
Fixed-asset additions	11 / 12	**(17)**	**(15)**
Proceeds from disposal of fixed assets	11	**-**	**-**
Net cash outflow from investing activities		**(17)**	**(15)**

The notes on pages 24 to 43 form part of these accounts

(iii). *Analysis of financing, and reconciliation to the net cash requirement*

	Notes	2003-04 £000	2002-03 £000
Repayments to the consolidated fund – prior year #	16	(219)	(133)
From the Consolidated Fund (Supply) - current year *		501	652
Payments to the Contingency Fund		(100)	(700)
Advances from the Contingency Fund		100	700
Net Financing		**282**	**519**
Decrease/(Increase) in cash	15	**46**	**(87)**
Net cash flows other than financing		**328**	**432**
Adjustment for payments and receipts not related to Supply:			
Amounts due to the Consolidated Fund received in a prior year and paid over	16	(8)	-
Amounts due to the Consolidated Fund – received and not paid over – other CFERS	16	-	1
Net cash requirement (Schedule 1)		**320**	**433**

Amount of grant actually repaid in respect of the prior year net cash requirement £219,363.34

* Amount of grant actually issued to support the net cash requirement £501,000.00

The notes on pages 24 to 43 form part of these accounts

Schedule 5

Resources by Departmental Aims and Objectives

	2003 - 04			2002 - 03		
	Gross	Income	Net	Gross	Income	Net
	£000	£000	£000	£000	£000	£000
for the year ended 31 March 2003 Aim:						
Objective (I) To promote competition in the generation and supply of Electricity and to protect the interests of electricity consumers with regard to price and quality of service	1,273	(1,244)	29	1,381	(1,298)	83
Objective (II) To promote the development and maintenance of an efficient, economic and co-ordinated gas industry and to protect the interests of gas consumers with regard to price and quality of service	726	(261)	465	493	(245)	248
TOTAL (Schedule 2)	**1,999**	**(1,505)**	**494**	**1,874**	**(1,543)**	**331**

The notes on pages 24 to 43 form part of these accounts

Notes to the Departmental Resource Accounts for the year ended 31 March 2004

1. Statement of Accounting Policies

The financial statements have been prepared in accordance with the Northern Ireland Resource Accounting Manual (NIRAM) issued by DFP and the relevant accounting standards. The accounting policies contained in the NIRAM follow UK generally accepted accounting practice for Companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where NIRAM permits a choice of accounting policy, the accounting policies which have been considered to be the most appropriate for the Authority for the purpose of giving a true and fair view have been selected and are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

(a) Suspension of the Northern Ireland Assembly

(i) The Secretary of State for Northern Ireland signed an Order on 14 October 2002 effectively suspending devolved government in Northern Ireland from midnight that night. Under suspension:

- the Assembly and its committees ceased to meet or conduct business;
- the First Minister, Deputy First Minister, Departmental Ministers, Junior Ministers, Chairmen and Deputy Chairmen of Statutory Committees all ceased to hold office;
- direct rule was reinstated; the Northern Ireland Departments discharged their functions subject to the direction and control of the Secretary of State; the functions of the First Minister and Deputy First Minister were discharged by the Secretary of State;
- legislation on devolved matters were made by Order in Council at Westminster.

(ii) The provisions allowing members of the Executive Committee to participate in the North/South Ministerial Council and the British Irish Council were also suspended.

(iii) The Secretary of State could at any time make an Order, subject to Parliamentary approval, to restore devolved government.

(iv) As a non-ministerial government department, the Authority complies with government policy that economic regulation should be conducted at arms length from ministers by independent regulators and consequently the Department is not materially affected by either devolution or its suspension.

1.1 Accounting Conventions

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets, at their value to the business by reference to their current costs.

1.2 Tangible Fixed Assets

The minimum level for capitalisation of a tangible fixed asset is £500 for PCs and £1000 for all other assets. Where material assets may be pooled/grouped so as to reflect more accurately asset holdings.

The following asset categories existed at the start of the year, namely IT equipment, office equipment, fixtures and fittings and leasehold improvements. Asset additions have been valued at purchase price. Existing assets are revalued annually by reference to revaluation indices obtained from the Office for National Statistics and the construction industry.

1.3 Intangible Fixed Assets

Intangible fixed assets comprise computer software licences with a capitalisation threshold of £1000. They are revalued annually by reference to the Retail Price Index (RPI).

1.4 Depreciation and Amortisation

Depreciation is provided at rates calculated to write off the valuation of tangible fixed assets by equal instalments over their estimated useful lives. Lives are normally in the following ranges:

Leasehold improvements	10 years or lifetime of lease
IT equipment	3 years
Fixtures and Fittings	5 to 10 years
Office Equipment	5 years
Intangible Assets	5 years

1.5 Revenue Recognition

The costs of the Authority are offset primarily by annual licence fees paid on the issue of electricity and gas licences as defined under statute.

Electricity fees are calculated on the basis of a determination made by the Authority. It was decided in 1992 that one third of the cost of electricity regulation should be charged to the holders of generation licences, one third to the holders of transmission licences and one third to the holders of public electricity supply licences, second tier licence holders pay a minimum fee of £250 plus an additional amount based on Mws supplied in the previous year which reduces the fee payable by the public electricity supply licence holder. Licence fees are ultimately recovered from electricity customers through an operating cost allowance in the Price Controls of NIE's regulated businesses.

The commencement date for the collection of Gas fees was 5 September 1996. Prior to that date, costs were borne by central government. Gas licence fees are based on the annual identifiable costs of gas regulation.

Gas licence fees are calculated on the basis of a determination made by the Authority. Following a consultation process on how gas licence fees should be apportioned it was decided that as from the 2002-03 financial year 80% (formerly 95%) of the cost of gas regulation should be borne by the holders of gas conveyance licences and 20% (formerly 5%) by the holders of gas supply licences. The holders of conveyance licences who engage in distribution activities will pay a £50,000 basic fee plus a further amount based on volumes conveyed in the previous year. Gas supply licence holders pay a minimum fee of £1,000 plus an additional amount based on volumes supplied in the previous year. Gas licence fees are recovered from gas customers through an operating cost allowance in the Price Control of Phoenix Natural Gas's conveyance business.

In the year following payment of licence fees, the Authority adjusts the new licence fees by the amount of over/under recovery of actual costs arising in the previous licence year. Since licence fees are based on estimated costs, any over-recovery is treated as Deferred Income within Creditors and any under-recovery as Accrued Income within Debtors.

In addition, following the introduction of The Energy (Northern Ireland) Order 2003 the cost of the General Consumer Council for Northern Ireland in dealing with electricity consumer issues is recovered from the public electricity supply licence holder and with gas consumer issues from (apportioned equally) the holders of gas conveyance licences who engage in distribution activities. For 2003 – 04 the Authority collected and passed on to the GCCNI an amount of £269,383 of which £153,933 was in respect of its' electricity functions and £115,450 was in respect of its' gas functions. These licence fees are accounted for in the accounts of the GCCNI.

1.6 Administration and Programme Expenditure

Administration costs reflect the costs of running the Authority as defined under the Administration Cost Control Regime, together with associated operating income. Programme costs reflect non-administration costs, including publicity and consultancy and other disbursements by the Department.

1.7 Capital Charge

A capital charge, reflecting the cost of capital utilised by the Authority, is included in operating costs. The charge is calculated at the Government's standard rate of 3.5% per cent in real terms on all assets less liabilities.

The negative value of total net assets arises because the funds owed to Electricity and Gas licensees are correctly shown as a liability. However under Government Accounting rules the Authority is required to surrender surpluses to the Consolidated Fund, these are the subject of an in year bid in the following financial year. This is required because the respective Electricity and Gas licences make provision for a reduction in the licence fee collected to reflect any underspend in the previous year.

1.8 Taxation

VAT is accounted for in accordance with SSAP5.

The amount due from HM Customs and Excise in respect of VAT is included within Debtors in the Balance Sheet.

1.9 Foreign Exchange

Revenue and expenditure incurred in foreign currencies are translated at the rate of exchange ruling on the date of the transaction.

1.10 Notional Costs

Since Resource Accounts are required to show the full cost of delivery of public services, the operating cost statement therefore includes certain notional items of expenditure.

1.11 Operating Leases

Rentals due under operating leases are charged to the operating cost statement over the term of the lease on a straight-line basis or on the basis of actual rental payments where this fairly reflects usage.

1.12 Pensions

Past and present employees are covered by the provisions of the PCSPS (NI) which is a defined benefit scheme and is unfunded and non-contributory. The Authority recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS (NI) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS (NI). From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (classic, premium and classic plus). New entrants after 1 October 2002 may choose between membership of premium or joining a good quality "money purchase" stakeholder based arrangement with a significant employer contribution (partnership pension account). Further details of these pension arrangements are given in Note 2 to the accounts.

1.13 Early Departure Costs

All Authority staff (excluding the 5 Non-Executive Directors) are on loan from their respective parent departments, those departments are required to meet the additional cost of benefits beyond the normal PCSPS (NI) benefits in respect of their employees who retire early. This additional cost runs from the date of their retirement until they reach normal pensionable age.

2. Staff Numbers and Costs

The average number of whole-time equivalent persons employed (including senior management) during the year was as follows:

	2003-04 Number	2002-03 Number
Employees	**23**	**25**

The aggregate payroll costs of these persons were as follows:

	2003-04 £000	2002-03 £000
Wages and salaries	679	674
Social Security costs	57	49
Other pension costs	91	100
Agency Staff	0	6
	827	**829**

The PCSPS(NI) is an unfunded defined benefit scheme which produces its own resource accounts, but The Northern Ireland Authority for Energy Regulation is unable to identify its share of the underlying assets and liabilities. The most up to date actuarial valuation was carried out as at 31 March 2003 and an updated estimate of the scheme liability is available at 31 March 2004.

For 2003/04, employers' contributions of £90,805.15 were payable to the PCSPS(NI) (2002/03 £100,043.20) at one of four rates in the range 12 to 19.5 per cent of pensionable pay, based on salary bands. The 2004/05 rates are in the range 12 to 18 per cent of pensionable pay, based on the revalorised salary bands.

Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions are paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of 0.8 per cent of pensionable pay, are payable to the PCSPS(NI) to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

At the balance sheet date there were no contributions due to any partnership pension provider, there were no prepaid contributions and no contributions had been made to the PCSPS(NI)..

The average number of whole-time equivalent persons employed (including senior management), by objective during the year was as follows:

	2003 – 04 No. of Employees	**2002 – 03 No. of Employees**
Objective 1	15	18
Objective 2	8	7
	23	**25**

The salary and pension entitlements of the most senior members of the Department were as set out in the table on the next page.

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any other contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figure shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the PCSPS(NI) arrangements and for which the Civil Service Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETV's are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

NORTHERN IRELAND AUTHORITY FOR ENERGY REGULATION

2003 - 2004

	Salary including performance pay **£000**	Benefits in kind (rounded to the nearest **£100**)	Real increase in pension and related lump sum at age 60 **£000**	Total accrued pension at age 60 at 31/3/04 and related lump sum at age 60 **£000**	CETV at 31/3/03 (nearest **£000**)	CETV at 31/3/04 (nearest **£000**)	Real increase in CETV after adjustment for inflation and changes in market Investment factors (nearest **£000**)
Ministers							
None							
Officials							
Mr Douglas McIldoon (Chairman)	80-85	0	0-2.5 plus 5 – 7.5 Lump Sum	25-30 plus 85 – 90 Lump Sum	417	479	43
Mr Charles Coulthard** (Non-Executive Director)	10-15	5,000 *	Non-pensionable	N/A	N/A	N/A	N/A
Mr John Fitzgerald** (Non-Executive Director)	5-10	1,800 *	Non-pensionable	N/A	N/A	N/A	N/A
Mr John Gilliland** (Non-Executive Director)	5-10	500 *	Non-pensionable	N/A	N/A	N/A	N/A
Mr Peter Lehmann** (Non-Executive Director)	10-15	5,100 *	Non-pensionable	N/A	N/A	N/A	N/A
Ms Joan Whiteside** (Non-Executive Director)	5-10	300 *	Non-pensionable	N/A	N/A	N/A	N/A
Mr Dermot MacCann	55-60	0	0-2.5 plus 0 – 2.5 Lump Sum	20-25 plus 65 – 70 Lump Sum	349	371	10
Mr Gerry Donnelly	35-40	0	0-2.5 plus 0 – 2.5 Lump Sum	15-20 plus 50 – 55 Lump Sum	283	305	12
Mr Kevin Shiels	35-40	0	0-2.5 plus 0 – 2.5 Lump Sum	5-10 plus 20 – 25 Lump Sum	60	68	7
Mr James Hutchinson	30-35	0	0-2.5 plus 0 – 2.5 Lump Sum	0-5 plus 5 – 10 Lump Sum	24	29	4
Mr Eddie Gaw***	20-25	0	0-2.5 plus 0 – 2.5 Lump Sum	5-10 plus 25 – 30 Lump Sum	96	107	5
Mr Eamon Corrigan	25-30	0	0-2.5 plus 0 – 2.5 Lump Sum	0-5 plus 0 – 5 Lump Sum	8	12	3

* Taxable value of home to office costs + overnight accommodation provided at public expense

** part time non-pensionable appointments

*** Salary from 1 September 03 to March 04 only

CETV figures at 31/3/03 and 31/3/04 in the respective columns in the the table show the members CETV accrued at the beginning and the end of the reporting period. The real increase in CETV column reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

None of those detailed above received any benefits in kind in respect of the financial year 2002 – 2003 nor were there any employer contributions made to a Partnership Pension Account including Risk Benefit Cover, on their behalf, in respect of the financial year 2003 – 2004.

Salary

(i) "Salary" includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance (including benefits in kind) to the extent that it is subject to UK taxation.

Pension

(ii) Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (classic, premium and classic plus). New entrants after 1 October 2002 may choose between membership of premium or joining a good quality "money purchase" stakeholder based arrangement with a significant employer contribution (partnership pension account).

(a) Classic Scheme

Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death, in service the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

(b) Premium Scheme

Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purpose of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the member's pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

(c) Classic Plus Scheme

This is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.
All staff in service at 1 October 2002 will be given the option to join the premium or classic plus arrangements.
Pensions payable under classic, premium, and classic plus are increased in line with the Retail Prices Index.

(d) Partnership Pension Account

This is a stakeholder-type arrangement where the employer pays a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3% (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up 25% of the fund as a lump sum.

<u>Benefits in Kind</u>
(iii) The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. All Non - Executive directors were reimbursed for the cost of travel to office and overnight accommodation.
In addition to the salaries paid to the Non - Executive Directors they are also paid work related expenses.

3. Other Administration Costs

	2003-04 £000	2003-04 £000	2002-03 £000	2002-03 £000
Rental under operating leases (see note 18)	80		89	
Hire of Office equipment	8		8	
		88		97
Non cash items:				
Depreciation and amortisation of fixed assets				
tangible fixed assets	22		20	
Intangible fixed assets	2		3	
Impairment of fixed assets	2		1	
(Profit) / Loss on disposal of fixed assets	-		-	
Cost of capital charge	(14)		(15)	
Auditors remuneration and expenses	25		26	
Other Notional Costs	37		22	
Bad debts provision	0		1	
		74		58
Hospitality	7		7	
Travel and Subsistence	62		39	
Rates	31		31	
Training	22		36	
Utilities	11			
Other Expenditure	85		117	
		218		230
		380		**385**

4. Net Programme Costs

	2003-04 £000	2002-03 £000
Consultancy	769	624
Publicity	23	36
	792	**660**

5. Analysis of Income Payable to the Consolidated Fund

	2003-04 £000	2002-03 £000

Analysis of income payable to the consolidated fund

In addition to Accruing Resources, the following income relates to the department and is payable to the Consolidated Fund (cash receipts being shown in italics):

		2003-04 forecast		2003-04 outturn	
		Income	Receipts	Income	Receipts
	Note	£000	£000	£000	£000
Operating income and receipts- excess accruing resources	8a	-	-	-	-
Non-operating income and receipts -excess accruing resources	8b & 13	-	-	-	-
Subtotal		-	-	-	-
Other operating income and receipts not classified as accruing resources	8a	-	-	-	-
Other non-operating income and receipts not classified as accruing resources	8b	-	-	-	-
Other amounts collectable on behalf of the Consolidated Fund	8d	-	-	-	-
Total		-	-	-	-

6. Operating Income

Operating income for 2003-04, analysed by classification and activity, is as follows:

	Accruing Resources £000	Payable to NICF £000	Income included in Operating Cost Statement 2003-04 £000	Income included in Operating Cost Statement 2002-03 £000
Administration income:				
Other – fees and charges external customers	-	-	-	-
Electricity Licence Fees				
Electricity Licence Fees	1,244	-	1,244	1,293
Miscellaneous	-	-	-	-
Gas Licence Fees				
Gas Licence Fees	261	-	261	245
Miscellaneous	-	-	-	-
Other - fees and charges other departments	-	-	-	5
	1,505	**-**	**1,505**	**1,543**
Programme income:	-	-	-	-
	1,505	**-**	**1,505**	**1,543**

Accruing Resources represent income due to the Authority or collected by it under a delegated authority from DETI that can be retained for offset against other public expenditure. This contrasts with CFERs which are remitted by the Authority to the Consolidated Fund.

7. Administration Cost Limits

The outturn against the administration costs control regime shown against administration costs limits is as follows:

	2003 - 04		2002 – 03	
	Outturn £000	Limits £000	Outturn £000	Limit £000
Request for Resources A	1,133	1,663	1,156	1,547
Admin expenditure excluded From admin cost limit	74	122	58	145
Total Admin Outturn	**1,207**	**1,785**	**1,214**	**1,692**

8. Reconciliation of Net Operating Cost to Control Total and Net Resource Outturn.

	2003-04 £000	2002-03 £000
Net Operating Cost	**494**	**331**
Add		
- operating income not classified as accruing resources	-	1
Net Resource Outturn	**494**	**332**

Net operating cost is the total of expenditure and income appearing in the operating cost statement (Schedule 2). Net resource outturn is the total of those elements of expenditure and income that are subject to parliamentary approval and included in the Authority's Supply Estimates. The outturn against the Estimate is shown in the summary of resource outturn (Schedule 1).

9. Analysis of Net Resource Outturn and Net Operating Cost by Function.

2003-04

	Admin	Other current	Grants	Gross Resource Expenditure	Accruing Resources	Net Resource Total	Estimate	Net total outturn compared to estimate	Prior Year Outturn
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources A									
Administration	1,145	792	-	1,937	(1,505)	432	455	23	274
Non Budget									
Notional Costs	62	-	-	62	-	62	45	(17)	58
Profit on sale of assets	-	-	-	-	-	-	-	-	-
Resource Outturn	**1,207**	**792**	-	1,999	**(1,505)**	**494**	**500**	**6**	**332**
Rec. to OCS									
Non Supply expenditure and income	-	-	-	-	-	-	-	-	(1)
Income payable to consolidated fund					-	-			
Net Operating Cost (Surplus)						**494**	**500**	**6**	**331**

Functions represent the disaggregation of Requests for Resources for control purposes and Parliamentary approval.They may not correspond to departmental objectives, which in turn reflect a disaggregation of departmental aims for the management of activities. (For analysis of Accruing Resources see Note 5).

10. Analysis of Capital Expenditure, Financial Investment and associated Accruing Resources.

	Capital Expenditure £000	Loans etc £000	Accruing Resources £000	Net Total £000
Request for Resources A	17	-	-	17
Total 2003- 04	**17**	**-**	**-**	**17**
Total 2002- 03	**15**	**-**	**-**	**15**

11. Tangible Fixed Assets

	Leasehold Improvements £000	IT Equipment £000	Office Equipment £000	Fixtures and Fittings £000	Total £000
Cost or valuation					
At 1 April 2003	**397**	**41**	**5**	**57**	**500**
Additions	-	11	2	-	13
Disposals	-	(2)	-	-	(2)
Impairments	-	(8)	-	-	(8)
Revaluations	17	-	-	-	17
At 31 March 2004	**414**	**42**	**7**	**57**	**520**
Depreciation					
At 1 April 2003	**364**	**24**	**3**	**51**	**442**
Charged in year	9	11	1	1	22
Disposals	-	(2)	-	-	(2)
Impairments	-	(6)	-	-	(6)
Revaluations	16	-	-	-	16
At 31 March 2004	**389**	**27**	**4**	**52**	**472**
Net Book Value At 31 March 2004	**25**	**15**	**3**	**5**	**48**
At 1 April 2003	**33**	**17**	**2**	**6**	**58**

12. Intangible Fixed Assets

	2003-04 £000
Cost or valuation	
At 1 April 2003	8
Additions	4
Disposals	-
Revaluations	-
At 31 March 2004	**12**
Depreciation	
At 1 April 2003	3
Charged in year	2
Disposals	-
Revaluations	-
At 31 March 2004	**5**
Net book value	
At 31 March 2004	**7**
At 1 April 2003	**5**

13. Movements in Working Capital other than Cash

	2003-04 £000	2002-03 £000
Decrease in debtors	71	104
Decrease in creditors	_	(161)
	71	**(57)**
Adjustments: movements in working capital not related to cash net operating costs		
- CFER amounts due to the Consolidated Fund	8	(1)
- Supply amounts due to the Consolidated Fund	38	(86)
Net increase in working capital other than cash (Sch 4)	**117**	**(144)**
Adjustments: movements in working capital not related to voted resource consumption	-	-
Changes in Working Capital other than cash (Sch 1)	**117**	**(144)**

14. Debtors

	2003-04 £000	2002-03 £000
Amounts falling due within one year:		
Trade debtors	3	149
Prepayments and accrued income	13	20
VAT debtor	105	23
	121	**192**

15. Cash at Bank and in Hand

	2002-03 £000	2001-02 £000
Balance at 1 April 2003	228	141
Net Cash (Outflow)/Inflow:	(46)	87
Balance at 31 March 2004	**182**	**228**
All cash is held in commercial banks or as cash in hand CFERs	1	9
Surplus issues	181	219
	182	**228**

16. Creditors: amounts falling due within one year

	2003-04 £000	2002-03 £000
Trade creditors	92	45
Accruals and deferred income	568	569
Cash balance payable to Consolidated Fund		
CFERs payable	1	9
Surplus Issues	181	219
	842	**842**

17. Capital Commitments

There were no contracted capital commitments at 31 March 2004. (Nil, at 31 March 2003).

18. Commitments under Operating Leases

At 31 March 2004 the Authority was committed to making the following payments in respect of operating leases expiring:

	£000 Buildings	£000 Other	2003-04 £000 TOTAL	2002-03 £000 TOTAL
Within one year	80	8	88	95
Between two to five years	150	22	172	278
After five years	-	-	-	-
	230	**30**	**260**	**373**

The above amounts reflect the total amounts due over the life of the operating leases.

19. Other Commitments

The Department has not entered into any non-cancellable contracts (which are not operating leases) as at 31 March 2004. (Nil, at 31 March 2003).

20. Contingent Liabilities

A decision published by the Authority was the subject of a judicial review as at 31 March 2003. This was successfully defended by the Authority. There were no contingent liabilities existing as at 31 March 2004.

21. Reconciliation of net operating cost to changes in General Fund

	2003-04 £000	2003-04 £000	2002-03 £000	2002-03 £000
Net Operating (Cost)/Surplus for the year (Schedule 2)	(494)		(331)	
Operating income not treated as Accruing Resources payable to Consolidated Fund	-		(1)	
		(494)		(332)
Non-operating income not treated as Accruing Resources payable to Consolidated Fund		-		-
Net parliamentary funding				
Drawn from Consolidated Fund	501		652	
Drawn from Contingencies Fund	100		700	
Repaid to Contingencies Fund	(100)		(700)	
		501		652
Consolidated Fund: Creditor for cash unspent		(181)		(219)
Non-cash charges:				
- Debit against cost of capital credit	(14)		(15)	
- Credit for other notional costs	62		49	
		48		34
Transfer of realised element of revaluation reserve (see note 22)	2			2
Net Decrease in General Fund		**(124)**		**137**
General Fund at 1 April 2003		**(368)**		**(505)**
General Fund at 31 March 2004 (Schedule 3)		**(492)**		**(368)**

22. Reserves

	2003-04 Revaluation Reserve £000	2002-03 Revaluation Reserve £000
Balance at 1 April 2003	9	9
Transfer to General Fund of realised element of revaluation reserve (see note 19)	(2)	(2)
Revaluation of tangible fixed assets	1	2
Revaluation of intangible fixed assets	-	-
Balance at 31 march 2004 (Schedule 3)	8	9

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

23. Related Party Transactions

The Authority has had a number of transactions with other Government departments and Central Government bodies. These include DETI and DFP.
None of the Authority members, key managerial staff or other related parties has, during the year, undertaken any material transactions with the NIAER. However, in respect of companies regulated by it or companies where licensed activities contribute to a significant part of their business non-executive directors have disclosed the following:-

John Fitzgerald : - Manager of the Energy Policy Research Centre in the Economic and Social Research Institute (ESRI). (The ESRI is a charity in the Republic which undertakes economic and social research of a public good nature.) This centre receives untied funding from the Commission for Energy Regulation, the Electricity Supply Board (ESB), ESB National Grid, Viridian and Bord Gais Eireann (BGE). This funding provides the basis for the research programme of the Centre.

Peter Lehmann: - Non-executive Chairman of the Energy Saving Trust which provides services to the Authority and holds shares in Centrica which supplys gas to Phoenix Natural Gas and to Ballylumford Power Station.

John Gilliland - Managing partner of Brookhall Estate, UK's first farm with an on-farm willow biomass Combined Heat and Power plant, selling electricity to Northern Ireland Electricity (NIE), through a non fossil fuel contract (NFFO 2 NI), Director of Action Renewables a charity, jointly funded by DETI and Veridian, to promote renewables in N. Ireland, Member of the N. Ireland Economic Development Forum, chaired by the Minister with responsibility for Enterprise Trade and Investment which gives a strategic input into the Department's role in supporting the wider N.I. Economy, including energy.

24. Financial Instruments

FRS 13, *Derivatives and Other Financial Instruments*, requires disclosure of the role financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of the Authority's activities and the way Government departments are financed, it is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The Authority has very limited powers to borrow or invest surplus funds and except for relatively insignificant forward purchases of foreign currency, financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Authority in undertaking its activities.

As allowed by FRS 13, the Authority has elected to exclude from disclosure all debtors and creditors which mature or become payable within 12 months from the balance sheet date.

25. Liquidity Risk

The Authority's net revenue resource requirements are financed by resources voted annually by Parliament, as is its capital expenditure. It is not, therefore, exposed to significant liquidity risks.

26. Foreign Currency Risk

The Authority's exposure to foreign currency risk is not significant. Foreign currency income is negligible and foreign currency expenditure is not significant.

27. Fair Values

The Authority had no financial assets nor liabilities at 31 March 2004. (Nil, at 31 March 2003).

28. Actual outturn - resources and cash

Actual outturn - resources:

Request for resources A: Actual amount net resources outturn £493,920.75. Actual amount of savings in resources over Estimate £6,079.25

Actual outturn - cash:

Net cash requirement: Outturn net requirement £320,326.90 which is £180,673.10 less than estimate.

The actual receipts surrenderable to the Consolidated Fund were £306.08

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