

**MINUTES OF A MEETING OF THE NORTHERN IRELAND AUTHORITY FOR UTILITY REGULATION (THE 'AUTHORITY') HELD ON THURSDAY, 4 DECEMBER 2014 AT QUEENS HOUSE AT 11 A.M.**

**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

Neil Bingham and Lesley Robinson (Agenda item 5), Paul Harland and Johnny Millar (Agenda item 6), Ronan McKeown (Agenda item 7) Jody O'Boyle (Agenda items 7 and 8), Karen Shiels (Agenda item 8).

**1 APOLOGIES FOR ABSENCE**

1.1 None.

**2 FIRE DRILL**

1.2 The board members were informed of the evacuation procedures which apply at Queens House in the event of a fire.

**3 DECLARATIONS OF INTEREST**

1.3 None.

**4 NI WATER PRICE CONTROL 2015-2021 (PC15)**

4.1 Jenny Pyper provided some initial contextual commentary on this item which sought the Board's approval for price limits for NI Water for the period 2015-2021.

4.2 Tanya Hedley briefed the Board on the price control process to date and the previous Board discussions on PC15. She also provided an overview of the proposed determination with reference to supporting annexes which outlined the Authority's previous consideration of key issues and provided price control data.

4.3 Further information was sought on the development of the determination since the Board's previous discussion. The extent of the engagement with NI Water was noted. Clarification was also provided on the treatment of operational expenditure in respect of rates.

4.4 The risks associated with any reduction of NI Water's public expenditure allocation, and the mechanism to address these, was also noted.

4.5 The Board approved the determination and the associated price limits for NI Water for the period 2015-2012 as presented. Board members were also invited to provide

comments on the PC15 documentation that was intended for publication, which was also provided at the meeting, as soon as possible.

## **5 FIRMUS SUPPLY PRICE CONTROL**

- 5.1 Kevin Shiels introduced this item which sought the Board's approval for the firmus Supply Ltd price control determination.
- 5.2 Board members clarified specific items in respect of the benchmarking comparisons with other energy suppliers, the assumptions for calculating the margin and the IT allowance included in the final determination.
- 5.3 The Board also discussed the proposed price control determination in the context the Authority's broader review of energy retail market effectiveness.
- 5.4 At the conclusion of the discussion the Board approved the price control determination as presented.

## **6 GD14 – FIRMUS ENERGY FINAL MAINS ALLOWANCES**

- 6.1 Brian McHugh introduced this item which sought the Board's decision on the granting of allowances for assessed infill mains allowances in respect of properties passed (PP) and security of supply projects.
- 6.2 The quality of the information received from firmus and the options for setting an appropriate mains allowance were also discussed as was the nature and extent of engagement to date on the issue. In this respect the Board clarified, at length, the basis for the recommended option of a total average mains allowance of 6.5m per PP. Board members also specifically sought further information on current spending by firmus energy and other gas companies on the mains infill allowance.
- 6.3 A broader discussion also took place on the risks associated with setting a separate allowance, based on several assumptions, given the Authority's statutory duty to promote the economic development of the natural gas industry.
- 6.4 The Board was minded to set a total average mains allowance of 6.5m per PP and agreed that this position should be communicated to firmus energy. It was also agreed that firmus energy should be given a further opportunity to provide additional evidence to substantiate what it believes the allowance should be. In the absence of adequate evidence to the contrary it was agreed that the Authority's minded-to position would be ratified at its next meeting in January.
- 6.5 Finally, the Board agreed to support the option for a security of supply allowance of £883,000 specifically for the Foyle River Crossing.

## **7 NORTH ATLANTIC GREEN ZONE FUNDING APPROVAL**

7.1 Ronan McKeown briefed the Board on the background and key aspects of this item, which sought approval for participation by NIE in the North Atlantic Green Zone.

7.2 Items relating to overall cost, the extent of the joint venture and the scope for utilising the communications network more widely were clarified.

7.3 The Board approved NIE participating in the North Atlantic Green Zone project, subject to NIE providing evidence to support this as an economically efficient investment for NI consumers.

## **8 (a) SONI PRICE CONTROL OVERVIEW**

8.1 Brian McHugh introduced this item for the Board's discussion on the approach and key aspects of the price control.

8.2 The Board discussed potential costs for SONI arising from the development of the new wholesale electricity market, the I-SEM and the need to ensure that price control allowances were efficient.

8.3 Clarification was also provided in respect of the timing of the Eirgrid price control and the scope for engaging with the Commission for Energy Regulation. The Board sought clarification on the attribution of costs to SONI, such as in respect of payroll, to ensure that costs were appropriately allocated.

8.4 Discussion also took place in respect of identifying the outputs from the price control and cost reporting more generally. In this context the Board also discussed how incentives might be appropriately applied in the price control. The issue of applying a rate of return and/or a margin was also clarified.

8.5 The Board also discussed the implication of SONI's disapplication notice in the context of the Department for Enterprise, Trade and Investment's plans to introduce legislation on licence modifications and appeals.

## **(b) SONI INDEPENDENCE REVIEW**

8.6 Jo Aston provided an overview on this item which sought the Board's guidance on the issue of SONI independence.

8.7 Board members clarified items relating to: SONI's compliance with its licence condition 12, legal advice in respect of independence, the requirement for operational independence and the meaning of 'associated businesses'.

8.8 The Board also discussed the potentially higher costs associated with services that may be provided by Eirgrid, the potential for efficiencies arising from SONI's links with Eirgrid and any cost benefits that may rise for consumers from closer integration. Wider economic and political considerations were also discussed.

8.9 At the close of the discussion the Board unanimously endorsed the position that there should be a fully independent Transmission System Operator for Northern Ireland.

## **9 CONTESTABILITY IN CONNECTIONS UPDATE**

9.1 Tanya Hedley introduced this information item which provided an update on the Authority's ongoing work on contestability.

9.2 Board members sought clarification on membership of the proposed working group and there was a brief discussion on the overall benefits arising from introducing contestability.

9.3 The Board noted the update provided.

## **10 MINUTES**

10.1 The minutes of the previous meeting on 23 October 2014 were approved for publication.

## **11 ACTION POINTS**

11.1 The action points were reviewed and noted. The Board was apprised of progress in respect of the Authority's approach to price controls. It was anticipated that a further paper on the approach would be presented at the Board Advisory Forum in April.

## **12 REPORT FROM THE EXECUTIVE TEAM AND FINANCE AND PERFORMANCE SUMMARY**

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

12.2 An update was provided in respect of the I-SEM. It was noted arrangements were being advanced for the appointment of an I-SEM project manager. The meeting between Minister Foster and the SEM Committee was also noted and it was agreed that a copy of the Minister's statement would be circulated to the Board.

12.3 Recent developments in respect of electricity security of supply and Gas to the West were also noted.

12.4 Reference was also made to the publication of the Authority's Forward Work Programme and a stakeholder briefing planned for February. The Board was updated on recent directorate reviews and progress against current Forward Work Programme targets.

12.5 A verbal update was also provided by Tanya Hedley in respect of winter readiness preparations by the energy and water network companies.

12.6 The Board's attention was also drawn to the publication, by the Enterprise, Trade and Investment Committee, of a report on Electricity Grid Connections and a summary of key findings and recommendations was tabled.

- 12.7 A brief discussion ensued on the issue of meter tampering and the Board noted the our engagement with the Trading Standards Service on the issue.
- 12.8 Board members discussed and approved the finance and performance summary which included the year to date budget position, staffing and absence figures, the corporate risk register and the assessment of progress against FWP targets. The Board also endorsed our draft contribution to the Competition and Market Authority's Concurrency Report which would be further refined in conjunction with CMA. The Board also approved an amendment to the Scheme of Delegation provided for manager involvement in dispute determinations. An updated Terms of Reference for the Remuneration Committee was also approved. Finally, the Board briefly discussed the draft risk strategy in respect roles and responsibilities and the assessment of risk appetite and agreed that it should be adopted in the context of finalising the FWP and producing the 15/16 risk register. It was agreed that the strategy would be reviewed again thereafter.
- 13 ANY OTHER BUSINESS**
- 13.1 A query in respect of the implementation of Alternative Dispute Resolution in Northern Ireland was also addressed.

There being no other business the meeting concluded at 3.40 pm.