

**MINUTES OF A MEETING OF THE NORTHERN IRELAND AUTHORITY FOR UTILITY REGULATION (THE 'AUTHORITY') HELD ON THURSDAY, 12 MARCH 2015 AT QUEENS HOUSE AT 9.00 A.M.**

**Present:**

Bill Emery (Chairman), Richard Rodgers, Bill Cargo, Teresa Perchard, David Strahan

**In attendance:**

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

Natalie Dowey and Colin Broomfield (Agenda item 4), Paul Harland, Caspar Swales and Alan Craig (Agenda item 5), Jody O'Boyle and Karen Shiels (Agenda item 6), Sarah Brady and Alison Farr (Agenda item 7), Elaine Cassidy (Agenda item 7 and 8), Roisin McLaughlin (Agenda item 9), John Mills (Agenda item 12), Barbara Cantley (Agenda 13).

**1 APOLOGIES FOR ABSENCE**

1.1 Jenny Pyper.

**2 FIRE DRILL**

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

**3 DECLARATIONS OF INTEREST**

3.1 Richard Rodgers declared a potential interest in respect of agenda item 7 and voluntarily absented himself from the meeting during discussion on that item.

**4 PPB PRICE CONTROL**

- 4.1 Jo Aston introduced this item, which sought the Board's approval for the publication of Power NI Power Procurement Business (PPB) draft price control determination, and outlined the context.
- 4.2 The Board's discussion on the draft determination focused on the following: general comparisons with the approach to price controls for other low asset utility companies, the relative rate of return being proposed, the risk profile of PPB, the impact of cost efficiencies reductions being delivered, pension deficit repair arrangements and the impact of the developing new wholesale electricity market on PPB.
- 4.3 The Board also made some suggestions in respect of the presentation of price control information and, in particular, the level of detail necessary around operational expenditure items.
- 4.4 Board members noted the challenging nature of the timetable for the price control.
- 4.5 The Board approved the publication of the draft determination, subject to any final drafting changes. It was also recommended that the PPB and SONI draft price control determinations be published around the same time.

## **5 GD17 APPROACH**

- 5.1 Brian McHugh introduced this item which sought the Board's approval for the proposed approach to the GD17 price control. He noted the main issues around the duration, timelines and rate of return and reported on engagement with stakeholders to date. Paul Harland then briefed the Board on the three main issues.
- 5.2 The Board noted the support from gas distribution network companies (GDNs) for the proposal for a six-year duration for the price control.
- 5.3 Board members discussed the timelines and processes for the price control. The Board agreed that it was important that there was a clear understanding of the critical dates for the submission of information. It was emphasised that, having established this clear understanding, we should be robust in addressing any instances of the late submission of price control information.
- 5.4 Comments from GDNs around the proposed rate of return were discussed. The Board noted the intention to use the Capital Asset Pricing Model to set an appropriate rate of return and the implications of this for setting the Total Regulatory Value.
- 5.5 Board members also clarified arrangements for consumer engagement in the context of the approach taken by Ofgem with GDNs in Great Britain.
- 5.6 The Board approved the GD17 approach as outlined in the paper.

## **6 SONI PRICE CONTROL DRAFT DETERMINATION**

- 6.1 Jody O'Boyle provided a presentation on the draft SONI price control determination, for the Board's approval. The presentation focused on the SONI submission, financeability and proposed Opex and Capex allowance allocations.
- 6.2 Several issues were discussed during the presentation (with clarification provided as necessary): the reasons for SONI's price control outperformance, the extent of the financeability challenges faced by the company, the request for additional staffing and the impact of I-SEM related work on the company, differentiating the costs of SONI from other related entities, rate of return and margin considerations, pension deficit repair arrangements and SONI's request for an increased Capex allowance allocation.
- 6.3 The Board sought clarification on the progress of the price control being undertaken by the Commission for Energy Regulation (CER) in respect of SONI's owner, Eirgrid.
- 6.4 The Board approved the publication of the draft price control determination and emphasised the importance of an appropriate level of engagement with CER in respect of the Eirgrid price control.

## **7 EXTENSION OF NISEP AND THE SCULPTING OF NISEP**

- 7.1 Richard Rodgers left the room before discussion on this item. Sarah Brady introduced this item which sought the Board's approval in-principle (subject to

consultation) to proposals for the future of the Northern Ireland Sustainable Energy Programme (NISEP). The Board noted correspondence from Minister Foster requesting consideration of extending NISEP and the re-sculpting of the recovery of NISEP costs.

- 7.2 The Board's comments on the proposals were in respect of four areas. Firstly, there was a discussion on the impact of the proposals on consumers and businesses. Secondly the Board sought information on how the re-sculpting of how NISEP costs are recovered would work. The Board also discussed timing considerations around the NISEP scheme. Finally, alternative schemes to NISEP, both those already available and in development, were discussed.
- 7.3 At the conclusion of the discussion, the Board agreed in principle to the proposals for (1) extending NISEP for a further year until 2016/17 and, (2) re-sculpt the manner in which NISEP costs are to be recovered so that 80% of the costs will be borne by domestic consumers and 20% by non-domestic consumers.

## **8 ENFORCEMENT ACTION PROCEDURE**

- 8.1 Elaine Cassidy presented a draft Enforcement Action procedure and Statement of Policy in relation to Financial Penalties for the Board's consideration.
- 8.2 Board members welcomed the progress made on the procedure and statement of policy.
- 8.3 Comments from board members in respect of: drafting suggestions around context, the formatting and accessibility of the document and amendments to the undertakings section, were noted.
- 8.3 The Board approved the issue of both documents for consultation subject to consideration of comments and suggestions made by board members.

## **9 GAS ENTRY LICENCE CHANGES**

- 9.1 Tanya Hedley introduced this item which sought the Board's approval to licence modifications to high pressure conveyance licenses to reflect changes to gas capacity products at entry points. Roisin McLaughlin provided further briefing on the consultation response.
- 9.2 After providing clarification, the Board approved the Executive team proceeding to finalise the licence modifications and delegated the sign-off of the final licence modifications to the Chief Executive.

## **10 FORWARD WORK PROGRAMME**

- 10.1 Greg Irwin introduced the final draft of the Forward Work Programme (FWP) for the Board's approval. He drew the Board's attention to consultation comments and the changes made to the final draft of the FWP.
- 10.2 Board members made some suggestions regarding the organisational chart and the presentation of budget information. It was also suggested that the impact - on other

projects - of focusing resources on major workstreams, should be clarified (in the context of a five-year corporate strategy). The scope of the consumer protection strategy was also clarified.

10.3 The Board approved the final draft of the FWP as presented.

## **11 DRAFT 2015-16 BUDGET**

11.1 Donald Henry briefed the Board on the draft budget 2015-16 which was presented for approval. It was noted that the Audit Committee had reviewed the draft budget at its February meeting.

11.2 Board members sought further information on specific elements of the proposed budget and these were clarified.

11.3 The Board approved the budget as presented. It was also noted that the budget would be subject to review during the year.

## **12 UPDATE ON NI WATER INCIDENT**

12.1 Tanya Hedley delivered a presentation to the Board by way of update on our review of water supply interruption during December 2015/ January 2015. Her presentation covered an overview of the progress of the review to date, initial review findings and next steps.

12.2 Several of the comments made by the Board members related to the emerging findings and the impact of the disruption. Board members also discussed the learning that should accrue to mitigate the impact of similar situations occurring in the future.

12.3 The engagement with consumers and other stakeholders, as part of the review, was also raised.

12.4 It was noted that the timetable for completing the review was challenging. The future involvement of the Board in the review, in terms of commenting and engaging on the draft review report, was also noted.

## **13 REMM CONSULTATION**

13.1 Barbara Cantley briefed the Board on the development of the Retail Energy Market Monitoring (REMM) framework. Her presentation covered the strategic context, the objectives of REMM, principles and key consideration, the phasing of the REMM project, the form and content of REMM and timelines.

13.2 Board members clarified several items around the extent of the data being sought, the relative sensitivity of such data, data quality and the terminology used for certain data. Timelines for the submission of data were also discussed.

13.3 Finally the extent of challenge to REMM by stakeholders was also explored.

**14 MINUTES**

- 14.1 The minutes of the previous meeting on 12 February 2015 were approved for publication subject to one minor amendment.

**15 ACTION POINTS**

- 15.1 The action points were reviewed and noted.

**16 REPORT FROM THE EXECUTIVE TEAM**

- 16.1 Donald Henry provided an overview of the Executive Team report and highlighted Minister Foster's intention to hold a roundtable meeting with stakeholders on the electricity connections issue. In this context, there was a brief discussion on a recent meeting between the Bill Emery and Jenny Pyper and their NIE counterparts.
- 16.2 The Board's attention was also drawn to the budget allocation to NI Water by DRD and the situation regarding the PC15 was discussed.
- 16.3 It was also noted that a project manager had recently been appointed to oversee I-SEM.
- 16.4 Other items of the Executive team report were briefly discussed: the retail market review, the battery storage project, smart meters, RP5 licence modifications, public sector industrial action and the work of UKRN and a recent meeting of regulatory chairs. It was agreed that a presentation by the UKRN to the UR board would be beneficial.
- 16.5 The Board noted the procurement procedure and commended its clarity.
- 16.6 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.
- 17 ANY OTHER BUSINESS**
- 17.1 The Board conducted a short meeting review with key comments relating to the challenging nature of the board agenda on this occasion.

There being no other business the meeting concluded at 2.30 pm.



