

4. PC10 FINAL DETERMINATION

The Chairman in his opening comments referred to the importance of the conclusions that the Board had made on PC10 at its December meeting and the further consideration that would take place at this meeting. The agenda item on PC10 from the December board meeting was provided for information, and it was agreed that an annex to the minutes of this meeting would distill the Board's overall decision on PC10. Annex One records the Board's overall decisions on PC10.

The Board received two papers for discussion. The first paper provided an update on the assessment and impact of NI Water's revised key data assumptions (customer numbers and volumes). Board members clarified issues relating to the confidence grading applied to assumptions, the impact of a re-classification on certain customer groups and discussed the principle of cost reflectivity. A second paper on the water balance and tariff model water volume was also discussed. Board members in particular discussed the impact of the proposed water volume figure as it affected different customer groups and the future outlook. The Board endorsed the existing volume of 172 m³ per property per annum in the PC10 final determination and the Scheme of Charges 2010-11.

A paper on the Correction factor relating to 2008-09 and 2009-10 was presented for the Board's decision. Board members considered the range of information presented and in particular the legal advice that had been received on the specific issue. The board concluded that the correction factor relates to costs that could legitimately be allowed for the PC10 period, but also that the board has discretion whether to allow them, in the light of its statutory duties. At the culmination of the discussion, the Board were minded that the correction factor as currently calculated should be disallowed in determining revenues and K Factors for PC10, but that this matter should be considered further with NI Water and addressed under separate correspondence.

A final paper on the PC10 final determination price limits (K Factors) was also considered by the Board. Board members considered the detail of the information presented. In particular, board members discussed the K Factors as they applied to the various customer groups and the rationale for differences. The rationale for changes in the K Factors between the draft determination and the final determination were also clarified.

With all the outstanding issues clarified, the Board approved the PC10 Final Determination price limits presented.

The meeting concluded at 11.15 a.m.

Annex One – Summary of PC10 decisions

The Board of the Utility Regulator approved the publication of the PC10 Final Determination and agreed:

- a revenue of £1,098 million for NI Water over the 2010-2013 period;
- a notional Regulatory Capital Value of £1,386 million
- a cost of capital of 4.8%
- the financial ratios as presented for each of the three years
- The approach to special additional operating costs which allowed £57.3m of the £112.4m sought by NI Water.
- a provision of £34.6 million for additional power costs (subject to a price index, to be developed) and £6.9 million for additional chemical costs
- an additional £10 million for Voluntary Early Retirement/ Voluntary Severance costs
- an additional £10million for Business Improvement Programme.
- a water volume figure of 172 m³ per property per annum in the unmeasured non-domestic sector
- the K Factors as displayed in the table below

| Tariff Basket | 2010-11 | 2011-12 | 2012-13 |
|-----------------------------|----------------|----------------|----------------|
| Unmeasured Water Supply | -2.7% | -3.3% | -4.7% |
| Unmeasured Sewerage Service | 1.9% | 1.4% | 1.0% |
| Measured Water supply | -1.8% | -1.8% | -1.8% |
| Measured Sewerage Service | 4.3% | 4.3% | 4.3% |
| Trade Effluent | -1.3% | -1.3% | -1.3% |
| Overall K | -0.2% | -0.6% | -1.2% |

- A revised Regional Price Adjustment factor of -12.2% applied only to work procured in local markets which resulted in an uplift from the draft determination of £25m.
- An increase of £18m pounds on water mains based on additional information submitted by NI Water to justify an increase in unit rates and the increased focus on urban mains laying.
- The application of a 6.5% pa operational efficiency target when applied to all opex including PPP but excluding the capital charge of PPP, which translates to a saving of £31.2m.

- A capital efficiency saving of £72m, £38m of which is redeployed to deliver additional outputs.