

28 August 2009

Sean Lyons  
Regulatory Finance  
Water Directorate  
Queens House  
14 Queen Street  
Belfast BT1 6ER

Dear Sean

### **NIAUR Financial Model for PC10: NERA Audit Opinion**

We have examined the financial model used by NIAUR to set price limits for Northern Ireland Water (NIW) for the period 2010/11 to 2012/13 ("PC10"). NIAUR is responsible for the development, implementation and operation of the financial model. Our responsibility is to express an opinion that the model conforms to the objectives as described in Section 3 of our audit terms of reference:

1. Confirm the logical integrity and arithmetic ability of the Financial Model under certain specified input configurations.
2. Confirm that the Financial Model is sound and robust, "fit for purpose" and can withstand external scrutiny.
3. Confirm that the Financial Model provided to NIW is consistent with the Financial Model used by NIAUR.
4. Identify shortcomings, recommendations and any necessary changes and/or improvements to the Financial Model.
5. Confirm that the Financial Model is consistent with the NIAUR approach and high level methodology to PC10.

We used our expertise and experience to perform tasks and procedures that we considered necessary under the circumstances. We believe that our examination provides a reasonable basis for our opinion.

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During our audit process, we identified a small number of required changes to the model to ensure it conforms to the stated objectives. We agreed these changes with NIAUR, and have introduced these changes to the model. Our recommendations are set out in our report: "*Audit of NIAUR's Financial and Tariff Basket Model*", 11<sup>th</sup> May 2009.

Following this process, in our opinion, the Financial Model possesses logical integrity and arithmetic ability, is sound and robust, "fit for purpose" and can withstand external scrutiny; is consistent with the Financial Model used by NIAUR; and, consistent with the NIAUR approach and high level methodology to PC 10.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R. Hern', with a long horizontal flourish extending to the right.

**Dr Richard Hern**  
**Director**