

PC21 Information Requirements

Chapter 5 – Financial Model and Financial Tables

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Information Requirement Tables

Table 5.1 – Charge Caps and Price Limits

Table 5.2 – Business Plan to Public Expenditure Reconciliation

Table 5.3 – Forecasts of New Connections and Metering Programme

Table 5.4 – Third Party Contributions for Water and Sewerage Services

Table 5.5 – Additional Information: Unmetered Water and Sewage Volumes

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Annex

Annex 5A – Financial Model and Financial Tables – Line Guidance

Chapter 5 - Financial Model and Financial Tables

Introduction

NI Water is required to complete seven financial information tables in addition to the Excel worksheets contained within the financial model. These are tables 5.1-5.7 inclusive. A commentary should accompany all tables and a description included of any assumptions made therein.

5.1. Table 5.1 – Charge caps and Price Limits

5.1.1. Table 5.1 collects the outputs of the financial model. NI Water should include in Block A the 'calculated' charge caps from the financial model. These are the charge caps which match revenue from the 'building blocks' approach to the tariff baskets.

5.1.2. NI Water should use Block B if it decides to apply any 'smoothing' to the resultant charge caps in Block A. NI Water must explain the basis for this adjustment and justify its 'equivalence' to the revenue calculated through charge caps.

5.1.3. NI Water should provide a comprehensive commentary in relation to the charge caps and price limits proposed for PC21 and additionally details of any assumptions made.

5.2. Table 5.2 – Business Plan to Public Expenditure Reconciliation

5.2.1. This table aims to reconcile between Business Plan Operating Costs and Public Expenditure (PE) limits.

5.2.2. NI Water are required to input a number of lines in relation to operating cost elements from the Financial model and additionally include other aspects which it must add or deduct from operating costs in order to determine PE levels. These should be inputted into lines 11a-h and 15a-h respectively with a line description for the adjusting element included.

5.2.3. NI Water should also include any required adjustments as a consequence of potential other adjusting factors within lines 11a-f and 15a-h as required – e.g. IFRS etc and also details of any assumptions made.

5.3. Table 5.3 – Forecasts of New Connections and Metering Programme

5.3.1. This table summarises the forecasts of new connections and metering programme for household and non-household properties.

5.3.2. NI Water should state any relevant assumptions made in forecasting new connection and metering levels and their rationale.

5.4. Table 5.4 – Third Party Contributions for Water and Sewerage Services

5.4.1. This table relates to third party contributions for water and sewerage services to capital expenditure.

5.4.2. NI Water should state any relevant assumptions made in forecasting third party contributions for water and sewerage services and their rationale.

5.5. Table 5.5 – Unmetered water and sewerage volumes

5.5.1. This table requires NI Water to state water and sewerage volumes associated with unmetered household and non-household customers assumed in the tariff basket.

5.5.2. NI Water should provide details of any assumptions made in setting unmetered water and sewerage volumes and their basis.

5.6. Table 5.6 – Large users

5.6.1. Table 5.6 requires NI Water to provide additional detail regarding large users of water, sewerage and trade effluent services. NI Water should provide details of any assumptions made in the completion of this table and its basis and this table should be consistent with the assumptions made in the financial model in relation to large user customers.

5.6.2. NI Water is required to complete the number of large user customers within each charging band for water and sewerage and should provide details of any assumptions made.

5.6.3. NI Water is also required to complete the number of trade effluent customers and the chargeable volume in order to derive the total revenue for trade effluent large user customers. NI Water should provide details of any assumptions made in this regard.

5.7. Table 5.7 – Miscellaneous and unregulated income

5.7.1. NI Water is required to complete this table for miscellaneous and unregulated income in terms of a number of unregulated activities.

5.7.2. NI Water should provide details of any assumptions made and their basis.

5.8. Financial Model – Base Historic Data (Tables B1-B7)

Introduction

5.8.1. The financial model tables which NI Water are required to complete are tables B1-B7, A1-A7 and TA1 to T23 inclusive. These tables collect all the financial inputs which determine NI Water's revenue requirement for the 2021/22 to 2026/27 regulatory period. It also collects data for the Regulator's financial model in order to determine e.g. charge caps and reference ratios.

5.8.2. NI Water should state in its commentary all assumptions made to complete the tables in this section. All tables relate to the appointed business only. A commentary should accompany all tables and a description included of any assumptions made therein.

5.9. Tables B1 to B6

5.9.1. These tables contain historic and current cost financial information for the year 2018/19. These include Regulatory accounts (Balance Sheet, Profit and Loss, Cash Flow, Working Capital, Tax, Debt and expected depreciation on closing assets).

5.9.2. NI Water should include in its supporting commentary an assessment of the PPP elements in the balance sheet and profit and loss accounts. This should include the PPP elements included within fixed assets, depreciation and amortisation and the amount added to residual interest for each financial year. The commentary should include details of the supporting assumptions and rationale applied.

5.10. Table B7 – Depreciation and amortisation

5.10.1. NI Water should provide a detailed explanation on how depreciation on base assets has been calculated in lines 9 and 10.

5.10.2. NI Water should also provide in commentary on the PPP element of any lines in this table.

5.11. Reporter Guidance – Base Historic Data

5.11.1. Review the rules adopted by Northern Ireland Water for allocation of expenditure to asset life categories. The Reporter should indicate whether or not NI Water's procedures are reasonable, and whether staff involved in allocation decisions have followed them correctly.

5.11.2. Comment upon any differences from rules and procedures adopted in other submissions (particularly the Annual Information Return), consistency of the reported asset lives with those used for the calculation of depreciation profiles and those of assets and lives reported in the Annual Information Return.

5.11.3. Confirm or otherwise that the depreciation charge stated has been calculated using Northern Ireland Water's rules on proportional allocation between purpose categories (specifically between base service and all enhancements).

5.11.4. Confirm or otherwise that Northern Ireland Water's accounting rules used for depreciation on additions and work in progress (WIP) have been stated in the commentary and have been followed in the completion of the tables; and that Northern Ireland Water has commented on asset life assumptions.

5.11.5. Confirm that the procedures set out in the commentary for the review of asset lives for both new and existing assets have been followed and the results of this review are reflected in the projections set out in the tables.

5.11.6. Confirm that the allocation of capital expenditure across asset life categories is consistent with the assumptions on the capital programme made elsewhere in the plan.

5.11.7. Comment on an exceptions basis where Northern Ireland Water has not provided commentary on inconsistencies in asset lives and investment allocation between those used in previous years and those reported. Similarly the Reporter should comment on inconsistencies between engineering and financial judgements on asset lives and investment allocation.

5.11.8. Comment where judgments on asset lives and investment allocation made for engineering purposes are not fully consistent with those used for financial purposes.

5.11.9. Confirm that where changes have been made to asset values and/or depreciation charges that these have been fully explained in the commentary.

5.11.10. Confirm that the impacts on CCD charges have been accurately calculated.

5.11.11. Comment on the appropriateness of the approach to revaluation and assessment of remaining useful asset lives taken by Northern Ireland Water.

5.12. Financial Model – Assumptions (Tables A1 to A7)

5.12.1. These tables contain any assumptions that could affect the financial accounts for the period 2021/22 to 2026/27.

5.13. Table A1 – Inflation

5.13.1. RPI inflation inputs refer to financial year averages. NI Water should input both historic figures and its inflation forecast for 2021/22 onwards.

5.13.2. COPI inputs refer to financial year averages. NI Water should input historic figures and its COPI forecast for 2021/22 onwards.

5.14. Table A2 – Financing

5.14.1. The cost of capital assumptions are input in 'real' terms (i.e. net of inflation). Actual costs of financing assumptions are input in nominal terms. Line 8 relates to the portion of the cost of equity that should have been distributed as dividends but may be foregone by the Government.

5.14.2. Line 9 relates to expected increase/decrease in financial reserves accounted for by outperformance of regulatory efficiency targets.

5.14.3. Line 17 is the assumed closing RCV at the financial year end 2020/21.

5.15. Table A3 – Capital expenditure

5.15.1. Capital expenditure should be split between enhancement and maintenance expenditure on infrastructure and non-infrastructure assets. The company should allocate this expenditure over asset lives and state in commentary the assumed asset lives in years of the life categories set out in the table (short, medium etc).

5.15.2. NI Water should also comment on the basis of, and level of confidence in, current cost depreciation and infrastructure renewals charge forecasts including the relevant assumptions made. The company should ensure that it conducts a reasonableness check on CCD and IRC with reference to actual maintenance expenditure levels (MNI and IRE). The commentary should include a description of this check and of any adjustments made as a result of it.

5.15.3. The Regulator does not expect strict application of broad equivalence but the company should provide commentary on the steps taken to allow broad equivalence and proposed timescale for implementation.

5.15.4. NI Water should also reconcile in its commentary the capital expenditure assumptions in Table A3 against the capital expenditure information submitted in other sections of the Business Plan.

5.16. Table A4 – Asset Disposals

5.16.1. Commentary to the table should confirm that assets disposed of are surplus to requirements, have been classified as such and have not been incorporated with a value into the RCV. Where this is not the case the total amount for each line of the table should be disclosed separately in commentary.

5.17. Table A5 – Miscellaneous accounting assumptions

5.17.1. Inputs on Profit and Loss items are in base year prices and Balance Sheet assumptions are in outturn prices. In its commentary, NI Water should ensure that it reconciles its assumptions on operating costs with those included in other sections of the Business Plan.

5.17.2. Line 2 Operating Costs; The Company should split operating costs into the following categories which should be set out in a separate table to be included in commentary:

- Wages and salaries, including travel and subsistence expenditure, after capitalisation. Excludes VER costs.
- Power costs.
- Materials and Chemicals.
- Hired and Contracted.
- Rates.
- Consultancy expenditure.
- Provisions. Please provide a breakdown into the separate provisions, for example bad debt, environmental etc and provide rationale for their movement in commentary.
- Other costs.

5.17.3. Please ensure that the totals of items 1 – 8 in the table equals total operating costs in line 2 of Table A5. Single categories of expenditure exceeding £2m should also be separately disclosed in the year of occurrence with explanation for their occurrence.

5.17.4. Significant non-recurrent items of spend in any one or more years should be separately disclosed with explanations for their occurrence and level of outturn provided in commentary. This should include, for example, Business Improvement Plan expenditure.

5.17.5. NI Water should only include 'external' costs in the PPP line, line 3 and this should be reported in accordance with guidance for Table B1. Any NI Water 'internal' costs

incurred in managing PPP contracts should be included as operating costs in line 2. Amortisation of PPP assets should be reported in accordance with guidance for Table B1. Also NI Water should provide details of any PPP element by scheme in the supporting commentary for any line shown.

5.17.6. For Line 7 in relation to dividends - NI Water should include in its supporting commentary, the supporting assumptions and rationale underlying the shareholder dividend projections for each financial year.

5.18. Table A7 – Tax Assumptions

5.18.1. This table should include forecast tax liability including capital allowances arising from capital expenditure. NI Water should provide commentary on any assumptions made.

5.18.2. The current table remains unchanged from PC15 and requires updating to align with a calculation of tax prepared under International Financial Reporting Standards (IFRS).

5.18.3. We intend to discuss this further with the company following the issue of the draft information requirements and will agree a programme for doing so.

5.18.4. Once the amendments have been agreed it will be necessary to reissue the financial model.

5.19. Reporter Guidance – Assumptions

The reporter shall comment with regard to the data entered in Table A3:

- That the allocation of asset lives is in accordance with industry practice and underlying company records (where relevant).
- That the allocation of capital maintenance and enhancement appears consistent and appropriately applied and in accordance with industry practice.
- That capital expenditure investment reconciles to the capital expenditure stated in other relevant Business Plan sections.
- That expenditure split between infrastructure and non-infrastructure appears reasonable and in accordance with industry practice.
- That the treatment of grants and contributions reconciles to the grants and contributions stated in other relevant Business Plan section.

5.20. PPP Schemes

NI Water should provide commentary on the appropriate tables to confirm:

- that the company is effectively managing the PPP contracts;
- that the PPP charges are calculated from the appropriate contract tariffs based on flows and loads;
- whether payments to PPP concessionaires are consistent with the company's estimates of future demands for water production, wastewater treatment and sludge disposal;
- whether NI Water has maximised any benefit of availing itself of potable water from the Alpha Scheme compared with its own works, and whether NI Water has minimised impact on charges to the company, whether NI Water has adequately investigated any gain/share opportunities available under the PPP contracts;
- that the company's estimates of future payments take account of the price escalation mechanisms and fixed cost elements within the PPP contracts; and,
- whether NI Water has penalised the contractors for non-compliance.

5.21. Reporter Guidance – PPP Schemes

The Reporter shall investigate the company's future estimates of PPP payments and report on:

- whether the PPP charges are calculated from the appropriate contract tariffs based on flows and loads;
- whether payments to PPP concessionaires are consistent with the company's estimates of future demands for water production, wastewater treatment and sludge disposal;
- whether such assumptions for growth underpinning the above are appropriate or otherwise;
- whether the company's baseline estimate of unitary charges are robust and not likely to support an unsustainable quantum of accruals;
- whether NI Water has maximised any benefit of availing itself of potable water from the Alpha Scheme compared with its own works, and whether NI Water has minimised impact on charges to the company;

- whether NI Water has adequately investigated any gain/share opportunities available under the PPP contracts;
- whether the company's estimates of future payments have taken proper account of the price escalation mechanisms and fixed cost elements within the PPP contracts; and,
- whether NI Water has penalised the contractors for non-compliance.

5.22. Financial Model – Revenue and Tariffs (Tables TA1 – T23)

5.22.1. The financial model contains a series of revenue and tariff tables numbered from TA1-T23. These tables largely relate to the tariff and revenue data within the financial model. They analyse NI Water's revenue into its constituent components. NI Water should therefore ensure that the assumptions and outturns in this section are consistent with the financial inputs in the B and A sections of the financial model.

5.22.2. A commentary should accompany all tables and a description included of any assumptions made therein.

Breakdown of Revenue

5.22.3. Revenue is broken down in two ways:

1. 5 **Tariff baskets**, which are the level at which price limits are set and allow flexibility in pricing for the 2021/22 to 2026/27 review; and,
2. 10 **Revenue Groupings** which are used to analyse cross-subsidy.

Tariffs, tariff multipliers and revenue

5.22.4. The tables set out the tariffs, tariff multipliers and revenue for each of the revenue groups. NI Water should set out the detail of each of these for 2018/19, 2019/20 and 2020/21 and forecasts for 2021/22 to 2026/27. The tables reflect the existing tariff structure and the company should use its best estimates to forecast changes to the tariff level, tariff multipliers and tariff revenue and apply the following principles:

- Customer numbers - these should be average numbers in accordance with Table 7 of the Annual Information Return 2019 definitions.
- Tariff multipliers are the unit (e.g. consumption) by which the tariff is multiplied to generate revenue.
- Tariffs are the annual tariff (unit rate charge) for the service (e.g. standing or volumetric charges).
- Revenue is the product of the tariff multiplier and the tariff.

5.22.5. In relation to tariff multipliers, NI Water should set out the actual tariff multipliers where agreed for relevant financial years and forecast these to 2021/22 to 2026/27. In forecasting tariff multipliers, the company should ensure it includes projections of the underlying growth of the customer base and the effects of any Ministerial guidance for the 2021/22 to 2026/27 period.

Assumptions

5.22.6. An explanation of key assumptions should be set out in commentary to the tables.

5.22.7. NI Water should summarise the key aspects of its forecast charges affecting domestic and non-domestic customers.

5.22.8. NI Water should also include an explanation of any material year-on-year variances in any of the assumptions.

5.22.9. The company should identify and substantiate changes in the customer base, cross-referencing with evidence provided in other parts of the business plan and providing analysis such as historical trends. Reference and comparison to external sources of information such as business demography data from the Office for National Statistics should also be used to complement internal analysis.

5.22.10. The company should input revenue, volumes and customer numbers relating to the particular charges and customer irrespective of how this is funded - whether through subsidy or direct charging. Revenue per tariff is therefore independent of any current or proposed funding arrangements.

Tariffs

5.22.11. NI Water should enter 2018/19 to 2020/21 tariffs (if known) and also project tariffs for each year to 2021/22 to 2026/27. It should input all tariffs in projected outturn prices, consistent with the inflation assumptions in the rest of the Business Plan. In the event of any identified cross subsidy, NI Water should illustrate the impact and the proposals for any unwinding of the cross subsidy and the assumptions made.

Trade Effluent

5.22.12. The company should provide input on the volume of trade effluent, the standards sewage strengths, the weighted average trade effluent strengths and the relevant tariffs (as per Mogden i.e. R, V, B and S). The company should then report the total revenue generated from trade effluent discharge.

Large Users

5.22.13. Large Users – In accordance with Condition B of the company’s licence, those customers who are classed by NI Water as large users under Condition B 2 (Excluded Charges (7A)), should be excluded from metered water, metered sewerage and trade effluent tariff baskets. Data should be entered into the non-tariff basket tables T21 accordingly. Large user trade effluent revenue should be included in T21 (other non-tariff basket charges- sewerage) and excluded from T17 (trade effluent and roads drainage revenue).

Rebalancing of tariffs

5.22.14. The Regulator’s financial model projects revenue assuming uniform tariff increases across all tariffs within a revenue group. If NI Water wishes to analyse the impact of rebalancing tariffs within a revenue group, it should input these alternative tariffs in this Section and explain in the commentary how these relate to the Regulator’s financial model tariffs. NI Water must explain the rationale behind any unwinding of cross subsidy and the period over which NI Water considers unwinding of cross subsidy is appropriate.

5.22.15. NI Water must explain its proposed apportionment of revenue across the customer groups and how the apportionment will ensure there is no cross subsidy between the customer groups as measured by the indicative tariff differentials.

Revenue assumptions

5.22.16. Revenue is normally calculated automatically as the product of tariff multipliers and tariffs. NI Water should explain in its commentary the impact of:

- any demand forecasts for the service;
- any relative change in price due to changes in the cost of providing a service (e.g. greater efficiency); and,
- any relative change in price or revenue due to the unwinding of cross-subsidy or re-apportionment.

5.22.17. Full explanations must be given for revenue totals which are not the product of tariff multipliers and tariffs.

5.22.18. Table T2 should contain the breakdown of the smoothed revenue among the revenue customer groups. This table should illustrate the percentage of revenue attributed to each revenue group. NI Water should include a comprehensive commentary to this table and include details of any assumptions made and their rationale.

5.23. Reporter Guidance – Revenue and Tariffs

5.23.1. The reporter should:

- Confirm or otherwise that the base year information is consistent with other published / audited information, and, where appropriate, billing records.
- Scrutinise, and provide an assessment of any explanations provided by Northern Ireland Water for discrepancies.
- Comment on the material assumptions employed by Northern Ireland Water.
- Scrutinise, and provide an assessment of the basis presented by Northern Ireland Water for assumptions of the number of properties, discount status and demand, with emphasis on the methods employed for, and appropriateness of, forecasting customer numbers.
- Comment on the match between demand forecasts and other information in the Business Plan on Supply/Demand.
- Comment on the basis for the assumptions employed in forecasting large user/industrial demands.
- Provide an assessment of any explanations provided by Northern Ireland Water where discrepancies are identified with other parts of the plan.
- In particular, the reporter should confirm that the base year information for customer numbers, property numbers and water and sewerage volumes is consistent with the company's billing records and other published/ audited information and comment on the basis and reasonableness of forward projections for the table entries set out below.

5.23.2. Worksheet T3: Non domestic Measured Water

- The reporter should comment on the applicability of the tariff multipliers for new and existing non domestic measured water customers (lines 1-15 inclusive with the exception of line 8) and on the reasonableness of projected tariff multipliers going forward.
- In addition, the reporter should comment on the volume subject to volumetric charges for both new and existing customers and the applicability of the assumptions made for future years.
- The reporter should comment on the applicability of the domestic allowance volume (line 55) and on the forecasted levels and assumptions made.

5.23.3. Worksheet T4: Domestic Measured Water

- The reporter should ensure that total billed properties in lines 1-4 are in accordance with the number of domestic measured water properties (if relevant). In addition,

the reporter should comment on the reasonableness of any projected property numbers and the underlying assumptions.

- The reporter should comment on the volume subject to volumetric charge (line 6) (if applicable) plus line 7 'total volume' and the assumptions made for the assumptions in future periods.

5.23.4. Worksheet T6: Domestic Unmeasured Sewerage

- The reporter should ensure that total billed properties in lines 1-4 are in accordance with the number of domestic measured sewerage properties (if relevant). In addition, the reporter should comment on the reasonableness of any projected property numbers and the underlying assumptions.
- The reporter should comment on the volume subject to volumetric charge (line 6) (if applicable) plus line 7 'total volume' and the assumptions made for the assumptions in future periods.

5.23.5. Worksheet T7: Non domestic measured sewerage

- The reporter should comment on the applicability of the tariff multipliers for new and existing non domestic measured sewerage customers (lines 1-15 inclusive with the exception of line 8) and on the reasonableness of projected tariff multipliers going forward.
- In addition, the reporter should comment on the volume subject to volumetric charges for both new and existing customers (lines 47 and 48), and the applicability of the assumptions made for future years.
- The reporter should comment on the assumptions made in deriving the total measured sewerage volume (lines 70 – 74) e.g. MUR and MLE.

5.23.6. Worksheet T9: Non domestic Unmeasured Water

- The reporter should ensure that total billed properties in lines 1 and 2 are in accordance with the number of non-domestic unmeasured water properties. In addition, the reporter should comment on the reasonableness of any projected property numbers and the underlying assumptions.
- The reporter should additionally comment on the number of £1000 capital value units charges less than capped value (line 3) and the number of billed properties at capped level (line 4) and the number of void properties (line 8) and the appropriateness of the projections in future financial years.

5.23.7. Worksheet T10 Domestic Unmeasured Water

- The reporter should ensure that total billed properties in lines 1, 2, 4, 5-7 and 23 are in accordance with the number of domestic unmeasured water properties. In

addition, the reporter should comment on the reasonableness of any projected property numbers and the underlying assumptions.

- The reporter should additionally comment on the number of £1000 capital value units charges less than capped value (line 3) and the number of billed properties at capped level (line 8) and the number of void properties (line 23) and the appropriateness of the projections in future financial years.

5.23.8. Worksheet T14: Domestic Unmeasured Sewerage

- The reporter should ensure that total billed properties in lines 1, 2, 4, 5-7 and 23 are in accordance with the number of domestic unmeasured sewerage properties. In addition, the reporter should comment on the reasonableness of any projected property numbers and the underlying assumptions.
- The reporter should additionally comment on the number of £1000 capital value units charges less than capped value (line 3) and the number of billed properties at capped level (line 8) and the number of void properties (line 23) and the appropriateness of the projections in future financial years.

5.23.9. Worksheet T15: Non domestic Unmeasured Sewerage

- The reporter should ensure that total billed properties in lines 1 and 2 are in accordance with the number of non-domestic unmeasured sewerage properties. In addition, the reporter should comment on the reasonableness of any projected property numbers and the underlying assumptions.
- The reporter should additionally comment on the number of £1000 capital value units charges less than capped value (line 3) and the number of billed properties at capped level (line 4) and the number of void properties (line 8) and the appropriateness of the projections in future financial years.

5.23.10. Worksheet T17: Trade Effluent, Surface Water Drainage and Roads Drainage

- The reporter should comment on the table B8-10 with the exception of lines 7-11, 19 and 27-28 and include his commentary on the assumptions, calculations and projections made therein. This should include particular reference to surface water drainage, road drainage and trade effluent categories.

5.23.11. Worksheet T21: Non-Tariff Basket - Water

- The reporter should comment on large user tariff volumes (lines 11-14) and the forecasts and assumptions made for future years.
- The reporter should also comment on the number of cattle troughs (line 24) and number of lock up garages (line 21) and the assumptions made for future years.

5.23.12. Worksheet T21: Non-Tariff Basket - Sewerage

- The reporter should comment on large user tariff volumes (lines 39-42 and 54) and the forecasts and assumptions made for future years.
- The reporter should also comment on the number of lock up garages (line 58) and the assumptions made for future years.

5.23.13. Worksheet T26: Diff Checks

The Reporter should comment on the following forecasts and assumptions:

- Proportions of the company's total sewerage load that receives (X) no or partial treatment with discharge via sea outfalls; (Y) primary treatment; (Z) secondary treatment.
- Billed water delivered to unmeasured non domestic customers.
- Billed water delivered to unmeasured sewerage non domestic customers.
- Unmeasured supply side leakage to unmeasured sewerage non domestic customers.
- Billed water delivered to unmeasured domestic customers.
- Billed water delivered to unmeasured sewerage domestic customers.
- Unmeasured supply side leakage to unmeasured sewerage non domestic customers.