

# **Northern Ireland Water Ltd**

Annual Information Return 2010

To the

Northern Ireland Authority for Utility Regulation



## **Public Domain Version**

**Part 8 of 8 containing:**

PPP costs and activity - commentary for tables 42 and 43

**Reporter's Submission**

**By**

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The Halcrow logo, featuring a stylized blue 'H' followed by the word 'alcrow' in a blue sans-serif font.

## 1. Background

## 2. Key Findings

- ### 3. Audit Approach

## 4. Audit Findings

#### 4.1 Block B – payment to PPP Concessionaire

### Line 7 – Unitary Charge Capacity Charge

Line 8 – Unitary Charge Variable Charge

The data within this line represents the variable element of the unitary charge.

As for the capacity charge, NI Water advised that the data is based on actual invoices received for each of the sites for the 12 months until and including March 2010. Therefore the data is based on actual invoices.

The chart below shows the total capacity and variable charge for the various sites with an associated unitary charge. It also provides data on performance deductions for sites.

[ x ]

#### **Line 9 – Unitary Charge Deductions**

The data within this line represents performance deductions. NI Water make performance deductions for both capacity and quality failures. The data is extracted from the Company general ledger system and invoices. The chart below shows the total unitary charge deductions split by performance deductions and capacity deductions for the Alpha sites.

[ x ]

[ x ]

[ x ]

**Line 10 – Atypical Expenditure****Alpha**

Various items of atypical expenditure reported have occurred on the Alpha contracts. These items are as follows:

(1) [ x ]	[ x ]
(2) [ x ]	[ x ]
(3) [ x ]	[ x ]
(4) [ x ]	[ x ]
(5) Launch Contribution	[ x ]
(6) Ex Gratia Payment	[ x ]
(7) Costs of Dunore Point Incident	[ x ]
<b>Total</b>	<b>[ x ]</b>

1) [ x ]

2) [ x ]

3) [ x ]

4) [ x ]

- 5) The launch contribution relates to the amount of money contributed by the contractor to the launch of the Alpha facilities;
- 6) An ex-gratia payment was made by the contractor to compensate the Company for costs incurred due to the issuance of boil water notices from a misrepresentative bacteriological sample;
- 7) This reflects the costs incurred by the Company due to the boil water notice incident described above.

The Company has not been able to split this expenditure by site so has allocated the expenditure in the total column for Alpha.

**Omega**

[ x ]

(1) [ x ]	[ x ]
(2) [ x ]	[ x ]
(3) [ x ]	[ x ]
<b>Total</b>	<b>[ x ]</b>

1) [ x ]

2) [ x ]

3) [ x ]

#### **Line 11 – Efficiency Gains Included in Lines 7-10**

The Company has not included any efficiency gains in lines 7 to 10. The Company advised that it has an efficiency sharing mechanism in the contract in order to share efficiency gains.

#### **Line 13-14 – Capital Repayments and Maintenance**

This data relates to paying off the finance lease creditor and any capital maintenance carried out on the contract during the year. The capital maintenance charge has been provided by Dalriada water and therefore we have accepted this at face value. The Company advise that data related to capital repayments has been extracted from its accounts. The Company provided us with a breakdown of the capital repayment schedule and the data received from Dalriada water by site.

#### **Line 15 – Residual Interest**

The Company provided us with a data for the Kinnegar site and the Omega sites. The Company has not been able to split the data for the Omega sites on a site by site basis and hence reported the entire sum under ‘Omega all’.

#### **Line 16 – Atypical Payments Capitalised**

The Company has reported no such payments for AIR10.

#### **Line 19 – Interest**

The Company provided us with a breakdown of data related to interest payments. The Company advised that the data is from the financial model related to the contract. We did not review the financial model and accepted the data provided to us at face value.

### **4.2 Block C – Water Distribution Data**

#### **Line 22: Length of main**

The 16.42km length of mains relating to the Castor Bay to Forked Bay rising main is confirmed as the correct length of main owned by PPP and correlates with totals reported in other tables.

#### 4.3 Block D – Water Resource and Treatment

##### **Lines 23&24: Turbidity 95%ile greater or equal to 0.5NTU**

Checks against Table 11a turbidity data confirm the reported line totals.

##### **Lines 25&26: Source and treatment type**

Source types and treatment types correlate with data analysed and reported in Table 12.

##### **Line 27: Average pumping head**

The Company initially submitted pumping heads using denominators based on the flow from individual sites. We noted that this was not in line with the Reporting Requirements which state that they should be in relation to the total system flow input (all NI Water and PP inputs). When queried, PPP advised that they have taken this approach following prior discussions with NIAUR where they believed this was their intention. The Company specifically noted this deviation in their commentary. Following discussions with the Company, we can confirm that NI Water and PPP are in agreement with us that the figures should relate to the total flow and we were informed that they intend to revise and re-submit the table and commentary accordingly.

NI Water supplied the Reporter with the corrected pump heads for Line 27 as follows:

- Moyola: 3.0m
- Ballinrees: 3.2m
- Dunore: 25.4m
- Castor Bay: 19.7m
- Forked Bridge to Crewe Hill: 0.2m

These values correctly tally and correlate with the 51.47m pump head reported in Table 12.

The A1 confidence grades are appropriate for Lines 22 – 26. We do not fully understand the justification for the C5 confidence grade for Line 27 given the B3 applied to the pump heads in Table 12 which is based on the same data. We therefore recommend that this is amended to B4 for consistency.

#### 4.4 Block E – Sewerage data. Lines 28 and 29

A sketch was provided to identify the sewer length of 10.4 km reported in the table. It relates to the discharge from Northdown/Ards STW to sea, plus the feed sewer taking flows from Biggs Rock (Bangor) pumping station to Northdown/Ards STW. Both lengths of sewer total 10.4 km and are critical since any failure would result in significant disruption.

**4.5 Block F – Sewage treatment and disposal data. Lines 30 to 38**

Most of the data reported here is derived from Table 17b and has been obtained in the same way as for NIW data, described in the commentary for Table 17b. This covers entries for Table 42 Line 30 and Lines 32 to 37.

The load received by PPP STWs is reported in Line 31 as 22206 kgBOD/day. This is the same as the load reported in Table 17d Line 7 (PPP data).

Treatment classifications reported in Line 37 are consistent with the data reported in Table 17c (PPP table).

Finally the size bands of the PPP STWs reported in Line 38 are consistent with the same data presented in Table 17c (PPP data).

**4.6 Block G – Sludge treatment and disposal data. Lines 39 – 52**

Reporting of data for sludge treatment and disposal has been complicated for AIR10 by the transfer of operating responsibility of the Ballynacor sludge treatment facility during the reporting period. The site was run by NIW from 1 April 2009 until 18 February 2010. It was then run by the Omega PPP concession from 19 February 2010 until 31<sup>st</sup> March 2010.

As such, for the total sludge produced by the PPP sites (8.33031 ttds, Line 40), the majority (7.57031 ttds, Line 43) was exported to NI Water.

Also due to delays the Duncrue Street sludge facility was not run by the PPP concessionaire at all during the reporting period. Therefore the entry for Line 41 is zero.

**Date:** 30 July 2010

**Prepared by:** [ x ]

**Table 43 – Key Outputs – PPP reporting operational costs****Commentary by REPORTER****1. Background**

The purpose of this table is to report information on operational costs related to the PPP contracts.

**2. Key Findings**

- In order to report data for some lines the Company has had to rely on data from external sources;
- Some apportionments and assessments are required to report the data. Where these have been applied we believe they are appropriate and are likely to result in data that is reflective of the actual position.

**3. Audit Approach**

The audit consisted of an interview with the table owner to discuss the methodology and review the source data extracted from the financial system.

**4. Audit Findings**

Data has been reported at site level for each of the 16 active sites. Further detail relating to each line is discussed below:

**Line 4 – Payment to Concessionaire**

This data has been transposed from table 42, line 12.

**Line 5 – Payment by Concessionaire to Operating Company**

The data relating to payment by concessionaire to operating Company is provided to NI Water by the PPP contractors. There is no way to determine the veracity of this information as the data originates externally.

**Line 6 - Power**

This data has been extracted from the Company general ledger system. Data related to power costs is reported on a site by site basis and hence no apportionment to data to derive these figures is required. Note the Company has not attempted to estimate power costs for Kinnegar for AIR10 as it has no mechanism for doing so.



**Line 7 – Other Direct Costs**

The Company has reported a marginal figure of [ x ] on maintenance agreements for Kinnegar. This relates to maintaining the Escrow agreement on the Kinnegar contract.

**Line 9 – General and Support Expenditure**

The total general and support costs have been calculated on the basis of assigning staff time costs related to administration of the contract and related consulting expenditure for the contracts. The Company has split the expenditure calculated for each contract across the sites based on the value of direct costs for each site. In the absence of actual data we believe the approach to calculating general and support costs and splitting these costs across the different sites is appropriate.

**Line 11 – Scientific Services**

The Company has determined the total costs related to scientific services and allocated these costs across PPP sites based on the assessed percentage of samples attributed to each PPP site, an allocation of staff costs and operational contractor costs per site visit. The approach relies on judgement and assessments. However in the absence of actual data we believe the approach is appropriate.

**Line 12 – Rates**

The Company has apportioned the rates bill across the different types of sites. For the rates bill related to water sites the Company has data related to total rates bills. It has allocated the portion to the Alpha sites based on the proportion of potable water provided as a percentage of total NI Water's water input. In the absence of more direct data we believe this approach is appropriate.

Wastewater sites receive a separate rates bill and hence the data can be attributed to each PPP site. Some apportionment has been applied to adjust for part year impacts.

**Line 13 – Estimated Terminal Pumping Costs**

The Company has reported power costs related to the terminal pumping station site at North Down.

**Line 14 – Estimated Sludge Costs**

The Company has reported zero in the estimated sludge cost line.

**Date:** 30 July 2010

**Prepared by:** [ x ]