

# Chapter 37 Financial measures: Water compliance expenditure report

Covering:
Water treatment
Water distribution
Other compliance
Capex and opex totals



## Section 2 Chapter 37 Financial measures: Water compliance - expenditure report

This table has six blocks and a total of 19 lines. It covers:

- Obligations prior to SBP
- Water treatment
- Water distribution The allocation of expenditure for all work funded under Article 31
  undertakings dealing with the condition of the distribution system. Where separate
  undertakings or schedule of works require the replacement of lead communication
  pipes, this should be included in the appropriate line.
- Security related measures
- Environmental Programme
- Capex and opex totals: These are calculated lines, giving the totals for capital expenditure and net additional operating expenditure for quality enhancement for the water service which are carried forward to table 35 lines 7 and 8.

The company should provide commentary in the return on any material changes in allocation methodology since the SBP. Where the allocation of expenditure complies with the proportional allocation principles employed by in preparing the SBP, the company must provide a statement in the commentary confirming this to be the case.

This table should only include expenditure related to work included in the SBP or a subsequent interim determination.

For work required to meet new legal obligations relating to quality enhancement, the company should utilise lines 18 and 19 of table 35. These lines should be completed when the company intend to submit a claim to have these additional new obligations considered for additional remuneration.

This information will be used to assess the overall cost of meeting compliance with specific parameters, and compare relative company efficiencies at meeting the required quality standards.

Price base: The company is required to submit the figures in money of the day price terms.

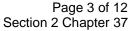
In this guidance the term 'schedule of work attached to a legally binding instrument of work' covers all documents setting down the work that the company has agreed to fulfil by the DWI under:

- Article 31 undertakings
- Authorisations
- Notices

A single table is provided to capture data.

The operating expenditure reported should include the relevant allocation of the opex element of the PPP unitary charge included in the total OPEX in Table 21 line 22. In its commentary,

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NI Water should state and explain the allocation of the OPEX element of the PPP unitary charge to each line of the table.

Capital expenditure reported in any line should exclude any expenditure on PPP assets which form part of the unitary charge payments reported in Table 42 but should include all other capital investment by NI Water.

If the expenditure reported in any line of the table expenditure includes investment in PPP assets which the company does not consider to be part of the unitary charge payment reported in Table 42, this should be clearly stated and explained in the commentary. The capital expenditure reported in any line of this table should be consistent with Table 32.

#### **Company commentary**

The company should:

- (where necessary) explain the late delivery of quality enhancement outputs during the report year;
- provide an indication of the effect any delays may have on the delivery of the total SBP drinking water programme; and
- confirm that all other quality enhancement outputs have either been met or are on target to meet due dates.

#### **Guidance for Reporter**

The Reporter should:

- confirm that he has examined the company statement on the allocation for quality expenditure and whether allocation has been in accordance with the rules used in the SBP;
- pay particular attention to the proportional allocation of expenditure on distribution mains and confirm or not whether the proportional allocation of expenditure is the same as in the SBP;
- examine and comment upon the reporting of ancillary expenditure on communication pipe replacement by the company (particularly lead); and
- should confirm (and/or provide additional commentary) on the company's commentary regarding the late delivery of the SBP drinking water programme, and the satisfactory delivery of other outputs.

#### Lines 1 - 8: Water treatment

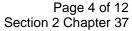
This table requires proportional allocation of expenditure to work required to meet legal standards for water quality. For all new schemes, and modifications to treatment works, the company must proportionally allocate expenditure to all lines in table 35 (Base service, Enhanced service levels and Supply demand balance as well as Quality enhancement) according to the required allocation methodology.

For opex the net additional operating costs attributed to individual parameters are required. The company is required to explain to the reporter the methodology used, and NIAUR may require follow-up information for individual parameters.

#### **Company commentary**

The company should:

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- for lines 1 and 2 include a breakdown for this expenditure in line with the categories included for table 37, to allow the costs to be reconciled;
- state the design flow of new and replacement works and the elements apportioned to growth for both capital and operating costs; and
- for lines 3, 4, 5, 6, 7 and 8 include the treatment works and the DWI reference number of the work carried out.

#### **Guidance to Reporter**

The Reporter should:

- confirm whether the methodologies used by the company to proportionally allocate expenditure at new or modified works to the various water compliance categories is the same as that used in the company SBP;
- comment on the information given by the company on the capacities of existing and new works; and
- for operating costs allocation, comment on the methods used to estimate the allocation between the various water compliance categories and the confidence grade placed on the allocation.

#### Guidance lines 9 -12: Water distribution

Water distribution: line 9, Capex: Total expenditure on distribution undertakings comprises the expenditure on the work carried out to fulfil the Article 31 undertaking required because of non-compliance or the risk of non-compliance caused by the condition of the distribution system. Line 10 includes only the proportion of capital expenditure allocated to quality. Additional or associated work on infrastructure renewal, concerned with maintaining the serviceability of the distribution system, must be included in the Base Service Provision. Similarly in line 11, the expenditure on lead to be included is that on lead communication pipes specifically covered by Article 31undertakings/or a schedule of works attached to a legally binding Instruments of work or their successor documents. The only operating costs to be included in this section comprise activity, agreed with DWI as being acceptable for the fulfilment of the Article 31undertakings or a schedule of work attached to a legally binding Instruments of work

#### **Company commentary**

The company should:

• for line 11 include the number of lead pipes replaced and the DWI reference number.

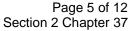
#### **Guidance to Reporter**

The reporter should:

- confirm that the expenditure included in these lines relates to work that is needed to fulfil
  the Article 31 undertakings for quality parameters in the distribution system. Where
  replacement has been carried out, but only relining is required for quality reasons, this
  should be noted in the commentary;
- confirm whether only the element attributable to quality has been included in line 12.
   Expenditure on work required to control leakage or maintain serviceability of the infrastructure should have been recorded elsewhere;
- comment on whether the proportional allocation used by the company for quality and other categories is the same as that for the Business Plan. Any changes in methodology should be thoroughly explored and explained in the report.

#### Lines 13-14: Security related measures

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The company must report the expenditure incurred in delivering security related measures included in the SBP price setting.

#### **Lines 15-17: Environmental Programme**

These three lines refer to the work required from the company for the water service to deliver investigations, carry out options appraisals and in a few cases enhancements required to deal with the environmental impact of water abstraction.

This is different from work in the previous blocks as the work is proposed and enforced by the Northern Ireland Environment Agency.

#### **Company commentary**

The company should:

- for lines 15 and 16 include in the commentary the project names and the NI Environment Agency reference numbers of the work carried out; and
- for line 17 include the names of the projects and NI Environment Agency reference numbers along with the allocation of expenditure.



#### **Table 37 line definitions**

#### A AMP3 OBLIGATIONS

1	Capex: Completion of programme of work funded prior to the SBP.	£m	3dp
Definition	Capital expenditure to complete the programme of we prior to the SBP.	ork fund	led
Primary Purpose	Informing relative performance and efficiency assess	ments.	
Processing rule	Input		
Responsibility	Network Regulation Team		

2	Opex: Completion of programme of work funded prior to the SBP.	£m	3dp
Definition	The additional operating expenditure in relation to the complete the programme of work funded prior to the		ear to
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

#### **B** WATER TREATMENT

3	Capex: nitrate	£m	3dp
Definition	Net capital expenditure on water treatment assets an to comply with the nitrate parameter.  This is the expenditure to deliver the quality enhance included in the SBP or amendments confirmed at an determination of prices for the nitrate parameter.	ment ou	
<b>Primary Purpose</b>	Informing relative performance and efficiency assess	ments.	
Processing rule	Input		
Responsibility	Network Regulation Team		

4	Capex: pesticides	£m	3dp
Definition	Net capital expenditure on water treatment assets an to comply with the pesticides parameters.  This is the expenditure to deliver the quality enhance included in the SBP or amendments confirmed at an determination of prices for the pesticides parameter	ment ou	
Primary Purpose	Informing relative performance and efficiency assess	ments.	
Processing rule	Input		
Responsibility	Network Regulation Team		



**Primary Purpose** 

Processing rule

Responsibility

5	Capex: Cryptosporidium	£m	3dp
Definition	Net capital expenditure on water treatment assets an	d proce	sses
	for reduction of risk from cryptosporidium. Expenditur		
	included only if the need for the output has been conf		ογ
	DWI.		,
	This is the expenditure to deliver the quality enhance	ment ou	utputs
	included in the SBP or amendments confirmed at an		
	determination of prices for reducing the risk from cryp	otospori	dium.
	, ,	•	
Primary Purpose	Informing relative performance and efficiency assess	ments.	
Processing rule	Input		
Responsibility	Network Regulation Team		
6	Capex: lead – water conditioning	£m	3dp
Definition			
Deminition	Capital expenditure to deal with the conditioning of w entering distribution to reduce plumbosolvency.	ater ber	ore
	entering distribution to reduce plantbosorvency.		
	This is the expenditure to deliver the quality enhance	mont or	itnute
	included in the SBP or amendments confirmed at an		ilpuis
	determination of prices for the conditioning of water s		to
	reduce the risk from plumbosolvency.	upplies	io
	reduce the fisk from plantbosolveriey.		
Primary Purpose	Informing relative performance and efficiency assess	ments.	
Processing rule	Input		
Responsibility	Network Regulation Team		
	3		
7	Capex: Other parameters	£m	3dp
Definition	Net capital expenditure on water treatment assets an		
Deminion	to comply with THMs reduction, turbidity control or ar		
	parameter included in the SBP as water quality enhancement		
	output requirements or amendments confirmed at an interim		
	determination of prices.	ii itoiiiii	
	determination of phoco.		
Primary Purpose	Informing relative performance and efficiency assess	ments.	
Processing rule	Input		
Responsibility	Network Regulation Team		
тоороновыну	Trotwork regulation roam		
0	Opey: Water treatment	C	245
8 Definition	Opex: Water treatment	£m	3dp
Delinition	Net additional operating expenditure in addition to the		pase
	year for water treatment assets and processes enhar	เบียน เป	
	deliver the quality programme.		
	This is the expanditure to deliver the quality exhance	mont o	itnute
	This is the expenditure to deliver the quality enhance included in the SBP or amendments confirmed at an		
	determination of prices for the parameters affecting w		
	treatment assets	alei	

Network Regulation Team

Input

Informing relative performance and efficiency assessments.



#### C WATER DISTRIBUTION

9	Capex - Total Article 31 distribution expenditure	£m	3dp	
Definition	Total capital expenditure on relining, replacing and providing new mains in the distribution system to meet the terms of the undertaking given by the company to deal with compliance with parameters in the water quality regulations affected by the condition of the distribution system.			
	Only include expenditure for work accepted by the DWI under the terms of the Article 31undertaking dealing with the condition of the distribution system. Also include any capital expenditure relating to the consumer acceptability projects			
Drimory Burnoco	This line is not included in the capex total in line 18.  Informing relative performance and efficiency assessments.			
Primary Purpose	l .	ments.		
Processing rule	Input			
Responsibility	Network Regulation Team			

10	Capex: Distribution expenditure allocated to quality £m 3dp
Definition	Net capital expenditure on relining, replacing and providing new mains in the distribution system allocated to quality enhancement. This is the net amount attributed to quality. The difference between lines 9 and 10 is allocated to other categories — maintenance, supply/demand, levels of service, etc. The company should explain in the commentary the allocation to other areas.  This should only include the expenditure directly relating to the distribution mains. Any expenditure relating to the replacement of communication pipes, including lead, should be included elsewhere. If the company has a policy of replacing lead and other communication pipes as part of the mains renovation (quality) programme, and this was included with these costs in the SBP and previously reported in the Annual Information return, but this work has not received specific confirmation from DWI, these costs may be included here. The commentary should give the breakdown of the number of lead and other communication pipes replaced and the associated costs.
	This is the expenditure proportionately allocated to quality to deliver the outputs included in the SBP for the distribution system or confirmed at an interim determination of prices for the parameters affecting water distribution assets
Primary Purpose	Informing relative performance and efficiency assessments.
Processing rule	Input
Responsibility	Network Regulation Team



11	Capex: Lead communication pipes	£m	3dp
Definition	Net capital expenditure on replacing or laying of lead communication pipes owned by the company which a specifically required by a schedule of works attached binding instruments of works. Do not include lead corpipe replacement carried out for other reasons - this is base service - infrastructure renewals (Rev) (table 35)	are to a leg nmunic s includ	ation led in
	This is the expenditure to deliver the quality enhance included in the SBP or amendments confirmed at an determination of prices for replacing lead communica	interim tion pip	
Primary Purpose	Informing relative performance and efficiency assess	ments.	
Processing rule	Input		
Responsibility	Network Regulation Team		

12	Opex: Quality distribution	£m	3dp
Definition	Net additional operating expenditure in addition to the year for distribution assets and processes enhanced quality programme.  This is the operating expenditure to deliver the quality enhancement outputs included in the SBP or amendr confirmed at an interim determination of prices for the affecting water distribution assets.	to delive / nents	er the
Primary Purpose	Informing relative performance and efficiency assess	ments.	•
Processing rule	Input		
Responsibility	Network Regulation Team		

#### D SECURITY RELATED MEASURES

13	Capex: Security – related	£m	3dp
Definition	This is the capital expenditure to deliver the water quality enhancement outputs included in the SBP or amendments confirmed at an interim determination of prices for miscellaneous work, and work to improve security and provide emergency supplies of water		
Primary Purpose	Informing relative performance and efficiency assess	ments.	
Processing rule	Input		
Responsibility	Network Regulation Team		



14	Opex: Security – related	£m	3dp
Definition	Net additional operating expenditure in addition base year for quality for work to deliver asset imfor security reasons, or for miscellaneous work to quality programme.  This is the operating expenditure to deliver the wenhancement outputs included in the SBP or arconfirmed at an interim determination of prices for miscellaneous work, and work to improve security provide emergency supplies of water	provem o delive vater qu nendm or deliv	nents er the uality ents
Primary Purpose	Informing relative performance and efficiency assess	ments	
Processing rule	Input		
Responsibility	Network Regulation Team		

#### F ENVIRONMENTAL PROGRAMME

15	Capex: Investigations	£m	3dp
Definition	The capex to deliver the programme of environmental investigations into the environmental impact of water during the report year. Do not include investigations of part of a larger project.	abstrac	
	This is the expenditure to deliver the water quality en outputs included in the SBP or amendments confirminterim determination of prices for environmental inve	ed at ar	ì
Primary Purpose	Informing relative performance and efficiency assess	ments.	
Processing rule	Input		
Responsibility	Network Regulation Team		

16	Capex: Options appraisals/implementations	£m	3dp
Definition	The capex to deliver the programme of option apprais implementation of projects relating to the environment water abstraction during the report year.  This is the capital expenditure to deliver the water quenhancement outputs included in the SBP or amend confirmed at an interim determination of prices for the of option appraisals and the implementation of projection.	ality ments progra	act of
Primary Purpose	Informing relative performance and efficiency assess	ments.	
Processing rule	Input		
Responsibility	Network Regulation Team		



17	Opex: environmental obligations	£m	3dp
Definition	Net additional operating expenditure in addition to the year for work to deliver the programme to deal with the environmental impact of water abstraction, investigati appraisals and in a few cases implementation to delive programme.	ne ons, op	tions
	This is the operating expenditure to deliver the water enhancement outputs included in the SBP or amendr confirmed at an interim determination of prices for the of investigations, option appraisals and the implement projects	nents progra	
<b>Primary Purpose</b>	Informing relative performance and efficiency assess	ments.	
Processing rule	Input	•	•
Responsibility	Network Regulation Team		

#### F CAPEX & OPEX TOTALS

18	Capex: Total quality enhancement programme (water)	£m	3dp
Definition	The total capital expenditure proportionally allocated reported for the provision of new or enhancement of eservice assets to comply with legal obligations or Minguidance.	existing	
	This is the capital expenditure to deliver the water quenhancement outputs included in the SBP or amendr confirmed at an interim determination of prices for all service quality cost drivers.	nents	er
	[This line does not include the total capex to fulfil Artiundertakings for quality in the distribution system, as line 9 only line 10 the proportion allocated to quality	collecte	ed in
Primary Purpose	Informing relative performance and efficiency assess	ments.	
Processing rule	Calculated: sum of lines 1, 3, 4, 5, 6, 7, 10, 11, 13, 15	5 and 16	3
Responsibility	Network Regulation Team		

19	Opex: Total quality enhancement programme (water)	£m	3dp
Definition	The net additional operating expenditure in addition to base year for work to deliver the water service quality enhancement programme.  This is the operating expenditure to deliver the water enhancement outputs included in the SBP or amendr confirmed at an interim determination of prices for all service quality cost drivers.	quality nents	
Primary Purpose	Informing relative performance and efficiency assess	ments.	
Processing rule	Calculated: sum of lines 2, 8, 12, 14, and 17		
Responsibility	Network Regulation Team		·



### **CHANGE CONTROL SHEET CHAPTER 37**

2008/1.0	First issue of chapter for the SBP period
2009/1.0	Second issue of chapter for the SBP period
	- no amendments
2010/1.0	Third issue of chapter for the SBP period
	- Line 10 definition corrected
	- Reference to separate PPP table removed