

# 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,

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:

- 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 31 undertakings/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 31 undertakings 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**

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

<b>1</b>	Capex: Completion of programme of work funded prior to the SBP.	£m	3dp
<b>Definition</b>	Capital expenditure to complete the programme of work funded prior to the SBP.		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

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

### B WATER TREATMENT

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

<b>4</b>	Capex: pesticides	£m	3dp
<b>Definition</b>	Net capital expenditure on water treatment assets and processes to comply with the pesticides parameters. This is the expenditure to deliver the quality enhancement outputs included in the SBP or amendments confirmed at an interim determination of prices for the pesticides parameter		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

<b>5</b>	Capex: Cryptosporidium	£m	3dp
<b>Definition</b>	<p>Net capital expenditure on water treatment assets and processes for reduction of risk from cryptosporidium. Expenditure to be included only if the need for the output has been confirmed by DWI.</p> <p>This is the expenditure to deliver the quality enhancement outputs included in the SBP or amendments confirmed at an interim determination of prices for reducing the risk from cryptosporidium.</p>		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

<b>6</b>	Capex: lead – water conditioning	£m	3dp
<b>Definition</b>	<p>Capital expenditure to deal with the conditioning of water before entering distribution to reduce plumbosolvency.</p> <p>This is the expenditure to deliver the quality enhancement outputs included in the SBP or amendments confirmed at an interim determination of prices for the conditioning of water supplies to reduce the risk from plumbosolvency.</p>		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

<b>7</b>	Capex: Other parameters	£m	3dp
<b>Definition</b>	<p>Net capital expenditure on water treatment assets and processes to comply with THMs reduction, turbidity control or any other parameter included in the SBP as water quality enhancement output requirements or amendments confirmed at an interim determination of prices.</p>		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

<b>8</b>	Opex: Water treatment	£m	3dp
<b>Definition</b>	<p>Net additional operating expenditure in addition to that in the base year for water treatment assets and processes enhanced to deliver the quality programme.</p> <p>This is the expenditure to deliver the quality enhancement outputs included in the SBP or amendments confirmed at an interim determination of prices for the parameters affecting water treatment assets</p>		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

**C WATER DISTRIBUTION**

9	Capex - Total Article 31 distribution expenditure	£m	3dp
<b>Definition</b>	<p>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.</p> <p>Only include expenditure for work accepted by the DWI under the terms of the Article 31 undertaking dealing with the condition of the distribution system. Also include any capital expenditure relating to the consumer acceptability projects</p> <p>This line is not included in the capex total in line 18.</p>		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

10	Capex: Distribution expenditure allocated to quality	£m	3dp
<b>Definition</b>	<p>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.</p> <p>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.</p> <p>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</p>		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		



<b>11</b>	Capex: Lead communication pipes	£m	3dp
<b>Definition</b>	<p>Net capital expenditure on replacing or laying of lead communication pipes owned by the company which are specifically required by a schedule of works attached to a legally binding instruments of works. Do not include lead communication pipe replacement carried out for other reasons - this is included in base service - infrastructure renewals (Rev) (table 35 line 2).</p> <p>This is the expenditure to deliver the quality enhancement outputs included in the SBP or amendments confirmed at an interim determination of prices for replacing lead communication pipes</p>		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

<b>12</b>	Opex: Quality distribution	£m	3dp
<b>Definition</b>	<p>Net additional operating expenditure in addition to that in the base year for distribution assets and processes enhanced to deliver the quality programme.</p> <p>This is the operating expenditure to deliver the quality enhancement outputs included in the SBP or amendments confirmed at an interim determination of prices for the parameters affecting water distribution assets.</p>		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

## D SECURITY RELATED MEASURES

<b>13</b>	Capex: Security – related	£m	3dp
<b>Definition</b>	<p>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</p>		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

<b>14</b>	Opex: Security – related	£m	3dp
<b>Definition</b>	<p>Net additional operating expenditure in addition to that in the base year for quality for work to deliver asset improvements for security reasons, or for miscellaneous work to deliver the quality programme.</p> <p>This is the operating expenditure to deliver the water quality enhancement outputs included in the SBP or amendments confirmed at an interim determination of prices for delivering miscellaneous work, and work to improve security and provide emergency supplies of water</p>		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

## F ENVIRONMENTAL PROGRAMME

<b>15</b>	Capex: Investigations	£m	3dp
<b>Definition</b>	<p>The capex to deliver the programme of environmental investigations into the environmental impact of water abstraction during the report year. Do not include investigations carried out as part of a larger project.</p> <p>This is the expenditure to deliver the water quality enhancement outputs included in the SBP or amendments confirmed at an interim determination of prices for environmental investigations</p>		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

<b>16</b>	Capex: Options appraisals/implementations	£m	3dp
<b>Definition</b>	<p>The capex to deliver the programme of option appraisals and the implementation of projects relating to the environmental impact of water abstraction during the report year.</p> <p>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 the programme of option appraisals and the implementation of projects</p>		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

<b>17</b>	Opex: environmental obligations	£m	3dp
<b>Definition</b>	<p>Net additional operating expenditure in addition to that in the base year for work to deliver the programme to deal with the environmental impact of water abstraction, investigations, options appraisals and in a few cases implementation to deliver the quality programme.</p> <p>This is the operating expenditure to deliver the water quality enhancement outputs included in the SBP or amendments confirmed at an interim determination of prices for the programme of investigations, option appraisals and the implementation of projects</p>		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Network Regulation Team		

## F CAPEX & OPEX TOTALS

<b>18</b>	Capex: Total quality enhancement programme (water)	£m	3dp
<b>Definition</b>	<p>The total capital expenditure proportionally allocated to quality reported for the provision of new or enhancement of existing water service assets to comply with legal obligations or Ministerial guidance.</p> <p>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 all the water service quality cost drivers.</p> <p>[This line does not include the total capex to fulfil Article 31 undertakings for quality in the distribution system, as collected in line 9.- only line 10 the proportion allocated to quality]</p>		
<b>Primary Purpose</b>	Informing relative performance and efficiency assessments.		
<b>Processing rule</b>	Calculated: sum of lines 1, 3, 4, 5, 6, 7, 10, 11, 13, 15 and 16		
<b>Responsibility</b>	Network Regulation Team		

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