

Chapter 36

Financial measures: Sewerage service - expenditure by purpose

Covering:

Base service provision

Quality enhancements

Enhanced service levels

Improving supply/demand balance

New outputs/obligations Grants and contributions
(including infrastructure charges)

Expenditure totals

Financial measures

Chapter 36

Sewerage service - expenditure by purpose

This table has nine blocks and a total of 31 lines. It covers:

- **Base service provision:** This includes the expenditure necessary in the sewerage service for the base service provision, which includes base operating expenditure, infrastructure renewals, and capital maintenance.
- **Enhancements, including**
 - **Quality enhancements:** Lines 7 and 8 are expenditure on the provision of new or enhancement of existing assets to achieve improvement in performance in line with stricter legal requirements allowed for in PC10 (or any subsequent Interim Determination). Lines 16 and 17 should include expenditure associated with new legal obligations placed on the sewerage service since the PC10 Final Determination (or any subsequent interim determination).
 - **Enhanced service levels:** An enhancement is achieved through the provision of identifiable, measurable, and permanent stepped improvements in service levels above the most recently established company-wide base level of service and which are additional to improvements which result from expenditure in other purpose categories. Allocation of expenditure to enhanced service levels should represent expenditure solely for this purpose. Lines 9 to 10 are for expenditure on outputs allowed for in PC10 (or any subsequent interim determination). Expenditure on other ESL outputs should be included in lines 16 and 17.
- **Improving supply/demand balance:** This includes expenditure on the provision of assets for sewerage supply to new customers with no net deterioration of existing levels of service, and to accommodate increased waste water from existing customers whilst maintaining existing levels of service. Lines 11 to 15 are for expenditure on outputs allowed for in PC10 (or any subsequent interim determination). Expenditure on other supply/demand outputs should be included in lines 16 and 17.
- **New outputs/obligations:** Expenditure to deal with new outputs required from the company for the sewerage service not included in either the Final Determination or subsequent interim determinations. The specific outputs and the reasons for the change since PC10 should be explained in the commentary. This is therefore expenditure the company considers to be outside the remit of PC10.

The company should provide full commentary to justify their view that expenditure reported in lines 16 and 17 was not allowed for in PC10 or a subsequent interim determination.

- **Grants, capital contributions and infrastructure charges receipts for new connections**
- **Adopted assets:** Assets, which are adopted or acquired at nil cost during the year, are to be distinguished separately in line 20.

Guidance

A single table is provided to capture data on capital investment and assets adopted at nil cost by NI Water.

The operating expenditure reported in this table should include all NI Water opex on both its own facilities and on PPP assets e.g. PPP rates, power, scientific services etc. The only opex excluded should be the PPP unitary charge payment (as reported in Table 22, line 20a).

Capital expenditure reported in any of lines 1 to 25 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 of lines 1 to 25 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 of lines 1 to 25 of this table should be consistent with Table 32.

Additional lines have been provided to report the element of the PPP unitary charge in the year which the company includes as a capital payment in its accounts divided into categories of base, quality, enhanced service, supply demand balance and new obligations since PC10. The total expenditure reported in these lines should reconcile to the capital expenditure element of the unitary charge for the water service reported in table 42. In its commentary, NI Water should state and explain the allocation of the CAPEX element of the PPP unitary charge to lines 26 to 31 of the table.

This table analyses capital and operating expenditure between purpose categories for the sewerage service.

If at any stage during the PC10 period, the company receives an interim determination during the report year, it should submit revised figures for lines 5 to 21, as appropriate.

The Total Asset Additions value calculated in line 23 should be the same as the sum of table 32 line 17 column 6 + table 32 line 33 column 6. Any difference should be explained in the commentary to Chapter 36.

Within the commentary the company is required to set out the progress it has made in delivering other defined outputs for maintaining base services which are included in PC10.

Assets which have been adopted or acquired at nil cost during the year are included at their MEA value in table 32 and the Regulatory Accounts in accordance with the principles of RAG 1.04 (with a corresponding amount shown as third party contributions). These assets should not be included within the other purpose categories in this table, but aggregated in line 20. A purpose category analysis of line 20 should be included in the commentary.

Amounts shown under grants, capital contributions and infrastructure charges for new connections should not include the corresponding third party contribution amount for such assets.

The chapter 36 commentary must explain how the allocation of expenditure to enhanced service levels relates to improvements in the company wide level of service. Expenditure allocated against DG5 should distinguish between improvements in the 1 in 10 and 2 in 10 risk categories. The commentary should describe in detail how the improvements have been effected and measured with reference, where possible, to levels of service indicators, and in particular how improvements which flow from expenditure in other categories have been accounted for.

Allocation of expenditure to infrastructure: The general rules for allocation of expenditure are contained in Regulatory Accounting Guidelines (RAG 2.03).

In principle, up-sizing of assets should not be allocated to base service provision. Where a new asset is being provided or an existing asset modified to achieve an enhanced service then this should be allocated to enhancement service. However, new or replacement of instrumentation and control assets for maintenance or improved operational efficiency should be allocated to base service provision even if the new plan improves the treatment quality.

The company should state in commentaries how allocation has been made for:

- health and safety expenditure;
- energy conservation expenditure; and
- operational efficiency expenditure

where this has not been allocated to operational activities (on a site by site basis).

Proportional allocation

- To enhance comparability in the longer term, the appointee is required to allocate expenditure on projects between service areas and investment purpose categories to at least the nearest 5% of project value;
- Confidence grades on expenditure should be limited to the reliability grade only i.e. not accuracy graded since this will depend on the proportion of the project expenditure allocated to each purpose category, e.g. an allocation of 5% of project value to enhanced service levels may be accurate to only $\pm 2\frac{1}{2}\%$ of project value which is $\pm 50\%$ of the allocated proportion.
- Because of the effect that a large individual scheme may have on the allocation of costs to a particular investment category, threshold limits have been set on scheme values, above which investment must be proportionally allocated.

Annual Capital Programme (06-07 prices)	Threshold scheme/project size for which proportional allocation is required
£ 0 - 10m	£ 10 000
£10m – 100m	£ 50 000
greater than £100m	£100 000

- The company should provide commentary in the return on any material changes in allocation methodology since PC10, or any non compliance with the guidance above on allocation of expenditure to infrastructure and proportional allocation between services areas and investment purpose categories. Where these are not consistent with the proportional allocation rules set out above, commentary should also be provided on the extent of non compliance and the methodologies used;
- Proportional allocation may be required between different enhancement categories or to distinguish the elements of a scheme which relate to enhancement from those which serve to maintain base service;
- Scheme costs relating to different enhancement categories are to be proportioned across the investment categories in relation to the relative capacities of each element of the scheme. A single physical measure should be identified that is appropriate to the purpose category, e.g.
 - rate of flow;
 - equivalent population; or
 - hydraulic capacity.

An example of proportional allocation is detailed below:

An existing cast iron water main into a distribution zone with a capacity of 2.8 MI/d needs to be replaced as part of the programme to meet Article 31 of the Water and Sewerage Services Order (Northern Ireland) 2006 undertakings for quality in the distribution system. The main is to be constructed with a capacity of 4.3MI/d, to allow for future growth.

Purposes: Quality Compliance and Growth
The scheme would be apportioned as:

Existing Capacity x 100%	i.e. 2.8 x 100 = 65% to Quality
<u>Proposed Capacity</u>	<u>4.3</u>
Proposed Capacity - Existing Capacity x 100%	i.e. (4.3 - 2.8) x 100 = 35% to Growth
<u>Proposed Capacity</u>	<u>4.3</u>

Price base: All figures on table 36 are to be in money of the day price terms.

Grants and capital contributions: only grants and capital contributions received for expenditure in the Supply/Demand category should be recorded in Block F.

Any other grants and contributions received by the company should be accounted for in lines 3, 4 and 6 in this table.

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Guidance to the Reporter

The Reporter should:

- confirm that the company has set rules for proportional allocation of expenditure, and that these are reasonable and are followed for project expenditure above the thresholds given in the general guidance for the company;
- indicate the extent to which the company has used proportional allocation versus prime purpose allocation; and
- comment on the allocation of the unitary charge payment by purpose;
- comment on the types of schemes that were proportionally allocated and give examples of the percentage of capital expenditure allocated to each category between categories where possible. The following area is of particular interest:
 - when practising proportional allocation, what specific method does the company use to determine the elements of quality compliance and maintenance expenditure for projects at treatment works.

Table 36 line definitions

A BASE SERVICE PROVISION

1	Base operating expenditure	£m	3dp
Definition	<p>The level of operating expenditure on the sewerage network required to maintain the quantity and quality of outputs and the levels of service provided by the sewerage service in the report year.</p> <p>Operating expenditure excludes current cost depreciation and the infrastructure renewals charge; base opex includes the opex incurred in the provision of services to third parties.</p> <p>Include the relevant expenditure NI Water incurs on its own functions and PPP assets but exclude any PPP unitary payments.</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Comparative Efficiency and Performance Team		

2	Infrastructure renewals expenditure (net)	£m	3dp
Definition	<p>The preservation and (where necessary) the replacement of sewerage service assets defined as infrastructure in RAG2.03, to maintain serviceability. For this line expenditure is reported net of grants and capital contributions as in table 32.</p> <p>IRE gross of grants and contributions should be reported in line 6 within table 36 as a separate information item.</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Copied: table 32 line 32 column 6		
Responsibility	Network Regulation Team		

3	MNI - gross of grants and contributions	£m	3dp
Definition	<p>The total expenditure (gross of grants and contributions) required for the sewerage service for maintenance of non- infrastructure assets as defined in RAG2.03. Expenditure is for the preservation and where necessary the replacement of sewerage service non-infrastructure assets to maintain serviceability.</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Copied: table 32 line 33 column 6		
Responsibility	Network Regulation Team		

4	MNI – grants and contributions	£m	3dp
Definition	Grants and capital contributions received by the company relating to sewerage maintenance non-infrastructure expenditure.		
Primary Purpose	Informing relative performance and efficiency assessments		
Processing rule	Input		
Responsibility	Network Regulation Team		

5	MNI – net of grants and contributions	£m	3dp
Definition	Total net sewerage capital maintenance non-infrastructure expenditure (i.e. after deducting grants and capital contributions)		
Primary Purpose	Informing relative performance and efficiency assessments		
Processing rule	Calculated: line 3 minus line 4		
Responsibility	Network Regulation Team		

6	Infrastructure renewals expenditure (Gross)	£m	3dp
Definition	The preservation and (where necessary) the replacement of sewerage service assets defined as infrastructure in RAG2.03, to maintain base operating capability. For this line expenditure is reported gross of grants and capital contributions.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

B QUALITY ENHANCEMENTS

7	Capex: Total quality enhancement programme (sewerage)	£m	3dp
Definition	<p>The total capital expenditure required for the provision of new, or enhancement of existing, sewerage service assets to comply with legal obligations or Ministerial guidance.</p> <p>This is only the expenditure to deliver the quality enhancement outputs included in PC10 or amendments confirmed at an interim determination of prices.</p> <p>Do not include expenditure relating to new outputs/obligations since the PC10 Final Determination.</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

8	Opex: Total quality enhancement programme (sewerage)	£m	3dp
Definition	<p>Additional operating expenditure in relation to the base year for quality opex for new or the enhancement of existing sewerage service assets to comply with legal obligations or other Ministerial guidance.</p> <p>This is only the expenditure to deliver the quality enhancement outputs included in PC10 or amendments confirmed at an interim determination of prices.</p> <p>Do not include expenditure relating to new outputs/obligations since the PC10 Final Determination.</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

C ENHANCED SERVICE LEVELS

9	Capital expenditure – customer service	£m	3dp
Definition	Capital expenditure for the sole purpose of enhancing the level of service to customers. An enhancement is achieved through the provision of identifiable, measurable, and permanent stepped improvements in service levels above the most recently established company-wide base level of service and which are additional to improvements which result from expenditure in other purpose categories. Allocation of expenditure to enhanced service levels should represent expenditure solely for this purpose.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Comparative Efficiency and Performance Team		

10	Additional operating expenditure – customer service	£m	3dp
Definition	This is additional operating expenditure in relation to the base year which arises from enhancements to the level of service provided to customers. An enhancement is achieved through the provision of identifiable, measurable and permanent stepped improvements in service levels above the most recently established company-wide base level of service and which are additional to improvements which result from expenditure in other purpose categories. Allocation of expenditure to enhanced service levels should represent expenditure solely for this purpose.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Comparative Efficiency and Performance Team		

D IMPROVING SUPPLY/DEMAND BALANCE

11	Capital expenditure supply/demand balance	£m	3dp
Definition	The provision of sewerage assets to provide for new customers with no net deterioration of existing levels of service and to accommodate increased waste water from existing customers to maintain existing levels of service.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated: sum of 12, 13 and 14		
Responsibility	Network Regulation Team		

12	Capex - new development	£m	3dp
Definition	The gross capital costs associated with the provision of local distribution assets for sewerage services to provide for new customers with no net deterioration of existing levels of service.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

13	Capex – growth	£m	3dp
Definition	Capital expenditure associated with changes in sewage collected from new and existing customers whilst maintaining existing levels of service. Note: this capital expenditure should exclude expenditure relating to the provision of local distribution assets to provide a sewerage service to new customers. This expenditure should be reported under line 12, 'Capex – new development'.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

14	Capex – growth – sewage treatment	£m	3dp
Definition	Capital expenditure associated with meeting or offsetting changes in demand from new and existing customers at sewage treatment works and sludge treatment centres. Note: this capital expenditure should exclude expenditure relating to the provision of local distribution assets to provide a sewerage service to new customers. This expenditure should be reported under line 12, 'Capex - new development'.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

15	Additional operating expenditure supply/demand balance	£m	3dp
Definition	The additional operating expenditure in relation to the base year which results from the supply/demand balance capital investment, including new development.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

E NEW OUTPUTS/OBLIGATIONS

16	New outputs/obligations - capex	£m	3dp
Definition	The capital expenditure to deal with new outputs required from the company for the sewerage service, but not included in either PC10 or a subsequent interim determination. The specific outputs and the reasons for the change since PC10 should be explained in the commentary. For quality enhancement outputs , any changes should be explained with the current view of the relevant quality regulator.		

Primary Purpose	Informing relative performance and efficiency assessments.
Processing rule	Input
Responsibility	Network Regulation Team

17	New outputs/obligations – opex	£m	3dp
Definition	<p>The net additional operating expenditure compared with the base year for enhancement opex of 2009-10 to deal with new outputs required from the company for the sewerage service, but not included in either PC10 or a subsequent interim determination. The specific outputs and the reasons for the change since PC10 should be explained in the commentary.</p> <p>For quality enhancement outputs, any changes should be explained with the current view of the relevant quality regulator.</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

F GRANTS, CAPITAL CONTRIBUTIONS AND INFRASTRUCTURE CHARGES RECEIPTS FOR NEW CONNECTIONS

18	Infrastructure charge receipts – new connections	£m	3dp
Definition	Capital contributions in the form of sewerage infrastructure charges received during the year for new connections.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

19	Enhancement requisitions, grants and contributions	£m	3dp
Definition	<p>Capital contributions received during the year by the company for the sewerage service assets other than from infrastructure charges.</p> <p>This should include capital contributions resulting from the connection of non-domestic supplies.</p>		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

G ADOPTED ASSETS, NIL COST ASSETS

20	Assets adopted or acquired at nil cost	£m	3dp
Definition	The gross MEA value of assets adopted or acquired at nil cost.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

H EXPENDITURE TOTALS

21	Total operating expenditure	£m	3dp
Definition	Total operating expenditure		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated: sum of lines 1, 8, 10, 15 and 17. This total should equal that calculated on table 22 (total) line 21 minus line 20a. This includes all NIW opex on its own functions and PPP assets but excludes any PPP unitary payments.		
Responsibility	Comparative Efficiency and Performance Team		

22	Infrastructure renewals expenditure (net)	£m	3dp
Definition	The preservation and (where necessary) the replacement of sewerage service assets defined as infrastructure in RAG2.03, to maintain serviceability. For this line expenditure is reported net of grants and capital contributions as in table 32. IRE gross of Grants and Contributions should be reported in line 6 as a separate information item.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Copied: table 32 line 32 column 6		
Responsibility	Network Regulation Team		

23	Total asset additions	£m	3dp
Definition	Total of asset additions (enhancement plus maintenance non-infrastructure).		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated field: the sum of lines 3, 7, 9, 11, 16 and 20. This total should equal the sum of table 32 line 17, column 6 plus table 32 line 33, column 6 and should equal table 25 line 5 column 8.		
Responsibility	Network Regulation Team		

24	Total enhancement capital contributions	£m	3dp
Definition	The sum of infrastructure charge receipts, requisition receipts, during the year by the company for the sewerage service assets.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated: the sum of lines 18 and 19		
Responsibility	Network Regulation Team		

25	Total capital expenditure (excluding adopted and nil cost assets)	£m	3dp
Definition	The total of all expenditure for both base service and enhancement purposes, excluding asset items recorded as additions in table 32 (and the Regulatory Accounts) for adopted assets and assets at nil cost (in accordance with RAG 1.04)		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated: sum of line 22 plus line 23 minus line 20		
Responsibility	Network Regulation Team		

I CAPITAL ELEMENT OF PPP UNITARY CHARGE PAYMENT

26	Capital element of PPP unitary charge payment allocated to base maintenance (infrastructure and non-infrastructure).	£m	3dp
Definition	The capital element of PPP unitary charge payment allocated to base maintenance (infrastructure and non-infrastructure).		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

27	Capital element of PPP unitary charge payment – quality enhancement expenditure.	£m	3dp
Definition	The capital element of PPP unitary charge payment – quality enhancement expenditure.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

28	Capital element of PPP unitary charge payment – enhanced level of service expenditure.	£m	3dp
Definition	The capital element of PPP unitary charge payment – enhanced level of service expenditure.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

29	Capital element of PPP unitary charge payment – supply demand balance expenditure.	£m	3dp
Definition	The capital element of PPP unitary charge payment – supply demand balance expenditure.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

30	Capital element of PPP unitary charge payment – expenditure on new outputs/obligations since PC10.	£m	3dp
Definition	The capital element of PPP unitary charge payment – expenditure on new outputs/obligations since PC10.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Input		
Responsibility	Network Regulation Team		

31	Capital element of PPP unitary charge payment – total.	£m	3dp
Definition	The total capital element of PPP unitary charge payment.		
Primary Purpose	Informing relative performance and efficiency assessments.		
Processing rule	Calculated: Sum of lines 26 to 30. The total should reconcile to the total unitary charge payment allocated to capital for the sewerage service in Table 42.		
Responsibility	Network Regulation Team		

CHANGE CONTROL SHEET

CHAPTER 36

2008/1.0	First issue of chapter for the SBP period.
2009/1.0	Second issue of chapter for the SBP period. - Guidance on allocation of expenditure to infrastructure amended.
2010/1.0	Third issue of chapter for the SBP period. - Amended reporting of PPP unitary charges, lines 26 to 31 introduced.
2011/1.0	First issue of chapter for the PC10 period. - Minor revisions e.g. new obligations since PC10 rather than SBP. - Backlog base guidance removed.
2011/2.0	- Clarification in the general guidance of what should be included in this table for the opex lines. - Clarification of guidance for lines 1, 8, 10, 15, 17 and 21