



Cost and Performance Report 2011-12
An assessment of NI Water's costs and performance



This document can be provided in accessible formats on request.
Please contact Adele Boyle to request this.
adele.boyle@uregni.gov.uk or 028 9031 6343.

Cost and Performance Report 2011-12

Contents

Foreword

1.0 Executive Summary	5
1.1. Introduction	5
1.2. Key Findings	5
1.3. Conclusions	6
2.0 Costs And Efficiency	7
2.1. Overall Financial Performance.....	7
2.2. Operational Expenditure	7
2.3. Meeting Operational Efficiency Targets	8
2.4. Closing the Efficiency Gap.....	9
3.0 Capital Expenditure	10
3.1. Investment by Service and Purpose	10
3.2. Capital Delivery.....	10
4.0 Performance Against PC10 Monitoring Plan	12
4.1. Performance Against the PC10 Key Performance Indicators (KPIs)	12
4.2. Delivery of PC10 KPIs	12
5.0 Customer Service.....	18
5.1. How Customer Service is Assessed	18
5.2. OPA Performance	18
6.0 Principal Issues Of Note For 2011-12	19
6.1. Service to Customers.....	19
6.2. NI Water Response to UR Freeze / Thaw Recommendations.....	20
6.3. Leakage	21
7.0 Future Price Controls And Reporting.....	23
7.1. PC10 (2010-2013)	23
7.2. PC13 (2013-2015)	23
7.3. PC15 (2015-2021)	23

Foreword

The role of the Utility Regulator is to protect the short and long-term interests of consumers. Our focus is on ensuring that consumers receive value for money for water and sewerage services.

This report reflects our assessment of Northern Ireland Water's (NI Water) performance during 2011-12. The report finds that NI Water continues to develop as a regulated company. It has, for the second year running, exceeded its operational efficiency target, while at the same time improving levels of service. It has also invested £192 million, successfully managing its programme of capital delivery to utilise the available budget.

As a result of NI Water's Non-Departmental Public Body (NDPB) status, £73 million of strategically prioritised capital investment was lost to the industry. To reflect these changes, we reassessed outputs and agreed a revised performance monitoring plan for years two and three of the PC10 price control. This loss of funding impacted most on wastewater improvements, increasing the risk of compliance failures and pollution incidents. It also delayed identified priorities for the implementation of the Water Framework Directive.

Following the extreme freeze / thaw event in the winter of 2010-11, 53 recommendations were defined for the company to act upon. The company has remained diligent in the delivery of these actions and has completed 40 of the 43 short-term actions in line with an agreed programme. The longer term actions will be addressed in subsequent price controls.

NI Water's Overall Performance Assessment (OPA) score of 184, a benchmark for comparing the performance of water companies in Great Britain, exceeded the target of 161 for the year. The company also outperformed its PC10 leakage target and pollution incident targets for 2011-12.

NI Water has undoubtedly made progress, however challenges remain. A significant gap still exists between NI Water and its industry comparators, in terms of efficiency and performance. The 2010-11 operational efficiency gap between NI Water and frontier English and Welsh companies means that for every £1 spent by them, NI Water spends £1.62. The comparative OPA score for the average English and Welsh company is 290 compared to NI Water's score of 184.

We are, overall, encouraged by the progress that has been made by NI Water. It is critical that NI Water remain determined and encouraged by stakeholders to continue to deliver a better value service for all its consumers.

Jo Aston
Director of Water Regulation

1.0 Executive Summary

1.1 Introduction

The Utility Regulator has been the independent economic regulator of the water and sewerage services industry in Northern Ireland since 1 April 2007. NI Water was also established on 1 April 2007, and is the government-owned provider of water and sewerage services in Northern Ireland. In the absence of domestic water charges, NI Water is also treated as an NDPB for financial purposes.

We exist to protect both today's and tomorrow's consumers. We do this by ensuring that NI Water prioritises investment in line with Ministerial Social and Environmental Guidance; that consumers receive value for money; and that investment results in improvements to service.

1.2 Key Findings

Our analysis is based on an objective assessment of data and information supplied by the company in response to regulatory reporting requirements. The key findings elaborated upon in the report are as follows.

Operational Savings

- NI Water has outperformed the in-year operational efficiency target.
- NI Water continues to lower the relative operational efficiency gap to benchmark water companies; the gap to the frontier¹ having now been reduced to 38% (2010-11). This means that for every £1 spent by the frontier benchmark, NI Water spends £1.62.
- A significant challenge still remains to reduce the efficiency gap further.

Capital Delivery

- In 2010-11 the company was not able to invest the full capital budget available to it. In these circumstances, we highlighted the need to maintain the rate of capital investment as a particular concern and area of focus. In 2011-12 the company has invested £192 million, successfully managing its programme of capital delivery to utilise the available budget.
- As part of our work on the price control for 2013-2015 (PC13), NI Water has already provided us with information on actual and projected investment over the PC10 period which runs from 2010-11 to 2012-13. Our initial assessment of this information suggests that NI Water is on track to deliver the capital efficiency targets and revised outputs of PC10.

Managing a Changing Capital Budget

- NI Water's classification as an NDPB means that its agreed and planned capital programme is subject to change at short notice if public expenditure funding is reduced or released. Its NDPB classification also means that unused budget cannot be carried over and used in the next year. An uneven budget profile, short-term budget changes and annual expenditure constraints are all detrimental to the effective delivery of strategic priorities.
- An under spend of the capital budget in 2010-11 and a reduction in available budget in the last comprehensive spending review (CSR) has reduced capital investment in PC10 by £73 million in outturn prices. To reflect these changes, we reassessed outputs and agreed a revised performance monitoring plan

¹ The operational efficiency gap to the average company is 31%.

for years two and three of PC10. The main areas affected by the reduced capital budget are:-

- a reduction in the opportunity to deliver additional outputs identified in PC10 which was mainly targeted at wastewater treatment work upgrades;
 - a reduction in sewerage investment to improve unsatisfactory intermittent discharges from the sewerage system; and
 - a reduction in 'management and general' expenditure necessary to enhance NI Water's ability to improve asset performance and deliver improved services to consumers. For example, investment in intelligent pumping station monitoring to reduce pollution incidents and operating costs was delayed to PC13.
- The reduction in investment, focused on wastewater improvements, increases the risk of compliance failures and pollution incidents. It has also delayed identified priorities for the implementation of the Water Framework Directive.

Overall Performance

- NI Water has performed well in 2011-12 against key service and output measures and against the OPA score. It outperformed against PC10 targets for drinking water quality and wastewater quality delivering its best performance to date in both areas. The OPA score of 184 exceeds the target of 161 for the year. The company is making progress in closing the gap to the comparative average score for the English and Welsh companies of 290²
- NI Water made good progress on the freeze / thaw action plan during 2011-12. By the end of December the company had delivered all its short-term formal commitments and by the end of the year it had completed 40 short-term actions against a target, for the year, of 41.
- The company has outperformed its leakage target in 2011-12 by 12 MI/d when measured on a like for like basis. The unusually benign winter will have contributed to this outperformance.
- The company has made progress in reducing pollution incidents and has outperformed the PC10 target for 2011-12.

Conclusions

- NI Water was established in 2007, it continues to make progress and develop as a regulated company. It has and continues to improve both the quality and reliability of its data, which enables it to manage its business better, target its investment better and deliver a better service to its consumers.
- The performance reported in this report, evidences progress, as NI Water has met its operational efficiency targets; increased its OPA; spent its capital money and is on track to deliver most of the outputs for the period of the current PC10 price control, 2010-2013.
- In meeting the regulatory challenge for the 2011-12 year, NI Water has overcome the constraints imposed on it by its NDPB status. However, outputs have necessarily had to be reduced, with a consequential impact on the delivery of agreed strategic objectives.

² This relates to the same 11 measures used for NI Water. The England and Wales average is that of 2009-10 as Ofwat has stopped producing these figures.

2.0 Costs And Efficiency

2.1 Overall Financial Performance

The Price Control 2010-13 (PC10) commenced on 1 April 2010 and will finish on 31 March 2013. It reflects NI Water's first regulatory price control period. We used price cap regulation (or RPI-X regulation) to set price limits for each of the three years within PC10. The price limits that we set for NI Water, must balance the revenue that the company requires, with the income it collects from charges and subsidy. PC10 will be followed by PC13, a two-year price control.

Turnover

Turnover for the regulated business was £354.8 million compared to £366.5 million predicted in PC10. Lower customer numbers and consumption levels continue to be a major reason for this along with a company decision to hold prices below the increases allowed under the price control for 2011-12.

Operating Profit

The current cost operating profit of £2.2 million was significantly less than the PC10 forecast of £51.1 million. The company made accelerated depreciation and impairment charges totalling £67.7 million, the majority of which related to Public Private Partnership (PPP) assets. This was a one-off exercise to clear Alpha assets no longer in use and Omega assets which are off-balance sheet under regulatory accounting rules. The remaining variance is largely due to reduced levels of income as noted above, offset by reductions in operating expenditure. Operating expenditure is considered in more detail in Section 2.2.

Dividend

During 2011-12, the company paid £26 million by way of a dividend to its shareholder, the Department for Regional Development (DRD). This dividend related to performance during the 2010-11 financial year. A dividend of £27 million in relation to 2011-12 performance was approved by NI Water's board in July 2012 and was paid to DRD in August 2012. This level of dividend is consistent with NI Water's projections within its business plan for PC10.

Loan Profile

The level of DRD loans reached £807.6 million in 2011-12. This reflected a lower loan drawdown profile as compared to the £880.8 million predicted in PC10. This deviation is largely due to reduced capital allocation to NI Water and an under spend in the Capital Works Programme in 2010-11. The level of borrowing results in a 2011-12 level of gearing of 46.9% as compared to the PC10 prediction of 53.1%.

More detailed information on NI Water's financial information is set out in the company's statutory and regulatory accounts. These can be found in NI Water's annual report for each year which is published on its website. (www.niwater.com/corporatereports.asp)

2.2 Operational Expenditure

NI Water's operational (opex) costs reduced in nominal terms from £202.6 million to £190.2 million in 2011-12. This translates as a £12.4 million fall in opex. Given that inflation over the last year stood at 4.8%, this represents a welcome reduction.

The PC10 final determination (FD) allowed an opex cost of £189.1 million (2007-08 prices) in 2011-12. This equates to £215.1 million in current prices. Comparison against actual spend illustrates an outperformance of some £24.9 million in year.

Expenditure against individual cost areas is detailed in Table 2.1.

Table 2.1: NI Water allowed versus actual opex in 2011-12 (outturn prices in £ million)

	FD Allowance for 2011-12 (£m)	Actual Spend in 2011-12 (£m)	Saving (-) / Overspend (£m)
Opex	151.1	141.5	-9.7
PPP unitary charge	48.4	44.4	-4.1
BIP	3.9	1.5	-2.4
VER/VS	11.7	2.9	-8.8
Total	215.1	190.2	-24.9

Notes: Figures may not add due to rounding. BIP – Business Improvement Programme. VER/VR – Voluntary Early Retirement/Voluntary Severance.

Whilst welcoming opex performance improvement, it is noted that almost 45% of savings against the price control allowance comes from under spend on transformation projects (BIP and VER/VS). These projects include business improvement and voluntary retirement schemes aimed at modernising the company and reducing staff numbers in a sustainable fashion.

As a key instrument in promoting efficiency, BIP and VER schemes have been funded in PC10 charges. We are content to accept under spend where projects are not needed. However, it is important that non-domestic customers are not charged twice, by inclusion of additional funding for these items in future price controls.

2.3 Meeting Operational Efficiency Targets

For the second year running NI Water has outperformed the opex targets set for PC10. The company has under spent the price control allowance by 11.6%.

Both nominal and real costs have declined, whilst at the same time, service levels have been improving. This represents improving efficiency and a positive result for consumers.

However, although actual expenditure was £24.9 million under the PC10 allowance, some cost reductions may be one off and others may represent a continuous saving going forward. Also, there will always be positive and negative impacts in any given year. Highlights of our assessment of outperformance in 2011-12 are:

- NI Water under spent against the BIP allowed funding by £2.4 million. Some key transformation projects have not been undertaken;
- VER/VS expenditure is £8.8 million below allowed funding. Much of the expected headcount reduction has not been realised;
- PPP unitary charges are £4.1 million less than projected. This stems from contract changes, performance deductions and good project management;
- lower than expected freeze / thaw costs in 2010-11 has resulted in a credit of £2.1 million. This atypical credit has reduced the opex spend in 2011-12;

- bad debt costs have been adjusted downward by £1.4 million. This reflects a change in the provision calculation and the resolution of incorrect billing issues;
- a credit of £1.3 million from claims settlements has lowered costs in 2011-12; and
- NI Water has absorbed an additional £2 million of cost imposed on them by the Carbon Reduction Commitment (CRC). No allowance for this element of spend was provided in PC10.

On the basis of our analysis, we have concluded that the company has met and outperformed the opex efficiency target as compared to the final determination by £6.9 million. This represents a very positive level of achievement for the second year of PC10.

2.4 Closing the Efficiency Gap

Another measure of performance is NI Water's efficiency position compared to companies in England and Wales for the year 2010-11. This is summarised in Table 2.2.

Table 2.2: Relative efficiency gap closure (%)

Category	Efficiency gap	Efficiency gap	Efficiency gap	Efficiency gap
	2007-08	2008-09	2009-10	2010-11
NI Water to England and Wales 'average'	42.6	39.5	33.3	31.2
NI Water to benchmark or 'frontier'	48.7	43.2	39.7	38.1

The analysis shows a continuing improvement profile; however, much remains to be achieved. The gap in 2010-11³ means that for every £1 of opex spent by the notional frontier company, NI Water spends £1.62. This suggests an efficiency loss of around £53 million per annum when compared to a base year of 2010-11.

NI Water has however continued to deliver efficiencies during 2011-12, so we might expect the efficiency gap as stated in Table 2.2 to be further reduced.

³ As in previous Cost and Performance Reports there remains a timing gap between NI Water's current operational expenditure out-turn and our analysis of benchmark water companies, whose comparative data is subject to subsequent delay before public release. Given the company's continued action to reduce operational spend into 2011-12, we might otherwise expect NI Water's efficiency gap to continue to narrow.

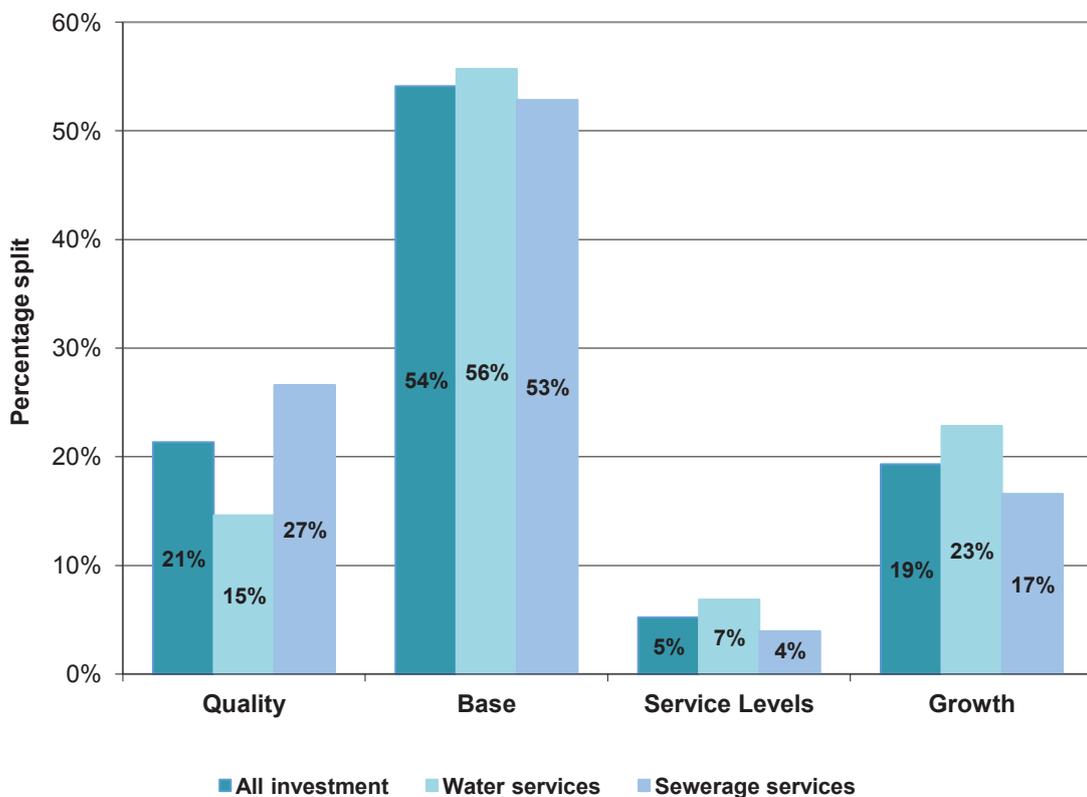
3.0 Capital Expenditure

3.1 Investment by Service and Purpose

In 2011-12, NI Water invested £192 million to maintain its existing assets, to meet more demanding quality obligations, to provide additional capacity for growth, and to improve the service it currently provides.

Investment in sewerage services in 2011-12 was higher than investment in water services (56% and 44% respectively). The allocation of investment by purpose is shown in Figure 3.1.

Figure 3.1: Allocation of investment in 2011-12 by service and purpose



3.2 Capital Delivery

In 2010-11 NI Water was unable to spend the full capital budget available. As the company is also classed as an NDPB for public expenditure purposes, it was unable to carry the under spend forward to 2011-12, resulting in a lost opportunity to invest in improvements to water and sewerage services. Given these circumstances, we highlighted the need to maintain the rate of investment as a particular concern and area of focus. In 2011-12 the company has invested £192 million, successfully managing its programme of capital delivery to utilise the available budget.

The under spend in 2010-11, and the CSR completed towards the end of 2010-11, reduced the amount of capital available to NI Water for the remainder of PC10 by £73 million in nominal terms. The original and revised capital budgets are shown in Table 3.1. As a result of the reduced budget, the company will not be able to deliver as much as planned for in the PC10 period. The Monitoring Plan for PC10 now reflects these changes and is the benchmark for the report on performance in Section 4.0.

Table 3.1: Revised PC10 capital investment (£million)

	2010-11	2011-12	2012-13	Total
PC10 FD budget	193	188	196	578
Revised actual and CSR budget*	162	192	150	504
Variance from the FD budget	-31	+4	-46	-73

*Notes: All figures are expressed in nominal terms. *The 2010-11 figure is actual expenditure with CSR budgets for subsequent years. Totals may not add due to rounding.*

NI Water continues to highlight public expenditure constraints (arising from its classification as an NDPB) as a source of inefficiency in capital delivery. The saw-tooth profile of annual budgets, the inability to carry expenditure between years and in-year budget changes bring a short-term focus to capital investment delivery which compromises efficiency. Stability over the medium-term with the flexibility to accommodate unforeseen delays would provide the opportunity for the company to improve efficiency. In the absence of this flexibility, we are concerned that the company may choose those projects for which delivery can be assured, allowing it to meet its investment budget, rather than delivering improvements which may have a higher priority and provide a greater benefit to consumers. Such an approach also works contrary to taking a long-term strategic approach and thereby supporting a sustainable and economic industry, delivering best value and service to consumers.

In next year's Cost and Performance Report we will report in detail on capital investment and the outputs delivered by NI Water over the three years of PC10 (2010-11 to 2012-13). As part of our work on the next PC13 price control, NI Water has already provided us with information on actual and projected investment over the PC10 period. Our initial assessment of this information suggests that NI Water is on track to deliver the capital efficiency targets and revised outputs for the PC10 period.

4.0 Performance Against PC10 Monitoring Plan

4.1 Performance against the PC10 Key Performance Indicators (KPIs)

Table 4.1 lists NI Water's key outputs as set out in the PC10 Monitoring Plan. Colour coding has been used to indicate whether NI Water met its target for 2011-12 (green), is expected to meet its target for the PC10 period (hatched green), failed its target for 2011-12 (red), or is expected to fail its target for the PC10 period (hatched red). A blue background signifies where a comparison against the PC10 Monitoring Plan is no longer applicable.

4.2 Delivery of PC10 KPIs

As part of the PC10 regulatory contract, we developed key service level outputs to reflect Ministerial Social and Environmental Guidance. A number of other general activity level targets (e.g. mains replacement rates etc.) were also set where it was difficult to establish a clear link between activity and service level changes. Following the adjustment to capital expenditure, a revision was carried out of the KPIs and nominated outputs for 2011-12, 2012-13 and the PC10 period as a whole.

Performance against these targets for 2011-12 is summarised as follows:

- NI Water performed better than in 2010-11 and met (or is on target to meet) 29 of the 33 PC10 Monitoring Plan and PC10 targets;
- the company met its drinking water and wastewater quality targets;
- NI Water failed its telephone call handling satisfaction target, mainly due to poor performance in the first half of the year;
- the company is on track to deliver the water mains rehabilitation target for PC10;
- NI Water has indicated that it is unlikely to meet its sewer renewal target for the PC10 period, having delivered only 39.5km in the first two years, against a target of 63.8km for PC10 as a whole. The company has attributed this to the need to utilise the same budget to construct wastewater pumping stations during 2011-12;
- NI Water has made significant improvements in its assessment of flooding risk which now allows it to target and deliver flood alleviation works; and
- the company is on target to deliver the agreed nominated outputs for PC10 including water treatment works upgrades, major water trunk mains, wastewater treatment works upgrades and improvements to unsatisfactory intermittent discharges from the sewerage system.

Actual performance against each target is set out in Table 4.1.

We have commented on the company's performance against the key targets and indicators. Where the target was included in the PC10 Final Determination but not the PC10 Monitoring Plan, we have indicated this with the suffix (FD).

Table 4.1 – NI Water PC10 key outputs

	Description	2011-12 PC10 Target	2011-12 Actual	Comments
	Customer Service Outputs			
1	Properties confirmed at risk of receiving water pressure below reference level (DG2) alleviated by company action	520	545	<p>NI Water's target is to remove 800 DG2 properties by company action over the PC10 period. The figures presented, reflect cumulative performance to date against an indicative target for 2011-12. 262 DG2 properties were removed by company action in 2011-12.</p> <p>Current performance indicates that NI Water is on course to meet its target for the PC10 period.</p>
2	Interruptions to water supply – composite score (DG3) ⁴	1.20	0.97	Performance in 2011-12 was much better than the annual target of 1.20. Performance in 2011-12 may have benefited from a benign winter.
3	Interruptions to water supply >12 hrs (No. of properties) (DG3)	1,700 props 0.214% (FD)	0.094% 765 props	<p>The PC10 FD annual targets were expressed as the percentage of properties affected. The target of 0.214% for 2011-12 equated to 1,700 properties, as adopted in the PC10 Monitoring Plan.</p> <p>Performance in 2011-12 was much better than the annual target. Performance in 2011-12 may have benefited from a benign winter.</p>
4	Properties at risk of flooding – number removed from the risk register by company action (DG5)	23	14	<p>The company plans to remove around 60 properties from the at risk register during PC10.</p> <p>The company has made significant improvements in its assessment of flooding risk which now allows it to target and prioritise flood alleviation works.⁵</p>
	Consumer Response			
5	Billing contacts dealt with within five working days (% billing contacts) (DG6)	99.9%	99.97%	<p>NI Water outperformed its annual target of 99.9% in 2011-12. NI Water only bills around 10% of its customer base and its volume of contacts is much lower than comparator companies as a result. We therefore expect the company to continue to deliver good comparative performance for this measure.</p> <p>NI Water has implemented initiatives to reduce billing contacts. However there appears to be further room for improvement as the number of contacts per billed property is still high compared to the average for England & Wales (E&W).</p>

⁴ The composite score assesses performance based on the percentage of properties experiencing unplanned interruptions of varying duration (i.e. >6 hrs, >12 hrs and >24 hrs). Supply interruptions that last over 24 hrs are given a double weighting.

⁵ See Section 6.1 for detailed information on the development of flooding risk registers and targets. See also page 17 for explanation of blue background.

6	Written complaints answered within 10 working days (% written complaints) (DG7)	98.5%	99.27%	<p>NI Water outperformed its annual target of 98.5% in 2011-12. The number of complaints received was the lowest ever.</p> <p>Complaints received by contractors and PPP concessionaries are however not included in the reported figures. NI Water has advised that it has taken action to ensure that this information will be included in future returns and we expect this to be the case.</p> <p>We note that 21% of all written complaints are not solved satisfactorily at the first attempt. Average performance in E&W is better and we would encourage the company to target improvements in this area.</p>
7	Bills based on meter readings (% of total metered accounts) (DG8)	97.5%	97.88%	<p>NI Water outperformed its annual target of 97.5% in 2011-12 and has delivered significant improvements in performance since 2007-08.</p> <p>Further improvements in line with targets will be required to deliver performance equivalent to E&W. This is despite NI Water metered customer numbers being much lower than those of comparator companies.</p>
8	Call handling satisfaction score (1-5)	4.70	4.57	<p>NI Water failed its annual target of 4.70% in 2011-12.</p> <p>Performance in the second half of the year improved to 4.64 compared to 4.50 for the first six months. NI Water claim that the lower scores in the first and second quarters were influenced by the 2010-11 freeze / thaw event. We will ask the company to provide further explanation on why an event which ended in January would have impacted on call handling satisfaction in the period April to September.</p>
9	Percentage of calls not abandoned (DG9)	99.0%	99.15%	NI Water outperformed its annual target of 99.0% in 2011-12.
10	Percentage of calls not all lines busy (DG9)	99.9%	100%	NI Water outperformed its annual target of 99.9% in 2011-12.
Water Resources				
11	Security of Supply index (maximum 100)	78 (FD)	100	NI Water outperformed its FD target of 78, achieving a maximum score of 100. This score has benefited from an improved assessment as a result of the company's update of its Water Resource Management Plan (WRMP) as well as a significant reduction in the amount of water it needed to produce in 2011-12.
12	Leakage (MI/d)	171	168	<p>This target was uplifted by 2MI/d after the PC10 FD to account for a notified change in methodology.</p> <p>It is estimated that like for like performance in 2011-12, compared to 2010-11, was 159 MI/d if a change in the property data used by the company is accounted for (refer to Section 6.3 for more details).</p>

13a	One new abstraction	-		<p>The company's target was to deliver this abstraction during PC10.</p> <p>This is expected to be achieved, with NI Water currently estimating 'beneficial use' in 2012-13.</p>
13b	Completion of reservoir inspection engineer's recommendations.	-		<p>The company's target was to address all the inspection engineer's recommendations during PC10.</p> <p>NI Water has advised that it now plans to complete some of this work in PC13. It states that it has reviewed the risk of non-delivery in concluding that this work can be deferred.</p> <p>NI Water indicates that the deferral results from:</p> <ul style="list-style-type: none"> • a decision to retender some work packages to seek better value for money following the receipt of unexpectedly high initial tenders; and • the decision to complete other projects within the overall funding allocation.
13c	Completion of the Water Resource Management Plan.	-	Mar 2012	<p>The company's target was to produce an updated WRMP during PC10.</p> <p>The company has delivered this output having published its final WRMP in March 2012, covering the period to 2035.</p>
Water Treatment and Distribution				
14	Mean Zonal Compliance (MZC) water quality at tap (%)	99.70%	99.83%	<p>NI Water's PC10 target was to deliver a minimum compliance of 99.70% throughout PC10.</p> <p>Our PC10 FD indicated that we expected NI Water to outperform this target and defined an expected performance level. Performance is currently in line with our expectations.</p>
15	Operational performance indicator (MZC turbidity, iron and manganese) (%)	99.10%	99.31%	<p>NI Water's PC10 target was to deliver a minimum compliance of 99.10% throughout PC10. 2011-12 performance exceeded this target.</p>
16a	Nominated outputs for water treatment works (WTW) upgrades completed (2nr)	2	2	<p>NI Water's target was to complete upgrades at 2Nr nominated WTWs over the three-year period of PC10.</p> <p>The figures presented reflect cumulative performance to date. NI Water delivered both its PC10 nominated outputs in 2010-11.</p>
16b	Study to determine the upgrade for water treatment works (1nr)	-	Aug 2012	<p>The company's target was to complete a study at one WTW during PC10.</p> <p>NI Water has delivered this output having completed the study in August 2012.</p>
16c	Trunk mains completion and starts (4nr)	3	2	<p>NI Water's target was to complete 4Nr nominated TM schemes over the three-year period of PC10. The figures presented reflect cumulative performance to date against an indicative target for 2011-12.</p> <p>NI Water is slightly behind schedule but has indicated that all nominated outputs will be delivered in PC10.</p>

16d	Completion and work to increase capacity at 13 service reservoirs or clear water tanks.	8	8	<p>For the Monitoring Plan, NI Water's target was revised to the completion of 9Nr nominated service reservoir schemes over the three-year period of PC10. The figures presented, reflect cumulative performance to date against an indicative target for 2011-12.</p> <p>Based on current performance NI Water is expected to meet its PC10 target. 3Nr SR schemes were completed in 2011-12.</p>
17	Activity output of 900km of new, replaced or relined mains over PC10, excluding the trunk mains programme.	600	714 km of new or renewed mains delivered by WMRP	<p>NI Water was set an activity output target of delivering 900km of mains over the three-year period of PC10.</p> <p>The figures presented reflect cumulative performance to date against an indicative target for 2011-12. Based on current performance, NI Water is expected to outperform its PC10 target.</p>
Sewerage				
18	Length of sewers replaced or renovated over PC10	49.9	39.52 Km	<p>The company has advised, and the Reporter confirmed, that the revised target of 63.8 km over the three-year period of the PC10 Monitoring Plan is unlikely to be met.</p> <p>The company has stated that reductions in funding, investment in wastewater pumping stations instead of sewerage, and delays in the sub-programme have contributed to the target likely not being met.</p>
19	Nominated outputs for improvements to Unsatisfactory Intermittent Discharges (UIDs)	49	64	<p>The target was revised from 117Nr to 68Nr over the three-year period of PC10 in the Monitoring Plan.</p> <p>The company is ahead of its target for PC10 and is likely to deliver solutions to more UIDs than originally planned.</p>
20	Number of high and medium pollution incidents attributed to NI Water	51	44	<p>The company met its target with a reduced number of pollution incidents being reported.</p>
Sewage Quality Outputs				
21	% of WwTWs compliant with (Water Order) numeric consents	85.8%	93.3%	<p>In line with Utility Regulator expectations, the company exceeded its target. The significant margin was assisted by the permitted removal of a number of sample failures during very cold winter periods, and increased plant performance in the summer due to dilution of wastewater arriving at treatment works, following unseasonal wet weather.</p>
22	% WwTWs compliant (UWWTD consents)	91.1%	96.2%	<p>The PC10 targets were met and exceeded in line with Utility Regulator expectations.</p>
23	% of WwTW discharges complying with numeric consents	85.5%	92.5%	<p>The PC10 targets were met and exceeded in line with Utility Regulator expectations.</p>

24	% of total p.e. served by WwTW complying with Water Order consents (LUT)	94.83%	96.45%	The PC10 targets were met and exceeded in line with Utility Regulator expectations.
25	% of total p.e. served by WwTW complying with UWWTD consent (LUT)	94.23%	99.10%	The PC10 targets were met and exceeded in line with Utility Regulator expectations.
26	Nominated outputs for improvements delivered by sewage treatment works schemes	31	27	<p>Target revised from 43 to 42 Nr schemes over the three year period of PC10 in the Monitoring Plan.</p> <p>The company has delivered 27 nominated schemes to date against a cumulative target to 2011-12 of 31.</p>
Asset Serviceability				
27	All asset areas	Stable (FD)	Stable	Estimated as stable based on limited information. A defined assessment process will be introduced during PC13.
Overall Performance Assessment				
28	OPA score based on 11 service areas included in 2007-08 assessment	161	184	<p>NI Water outperformed their objective for 2011-12.</p> <p>Target was revised downward from PC10 due to a reduction in the availability of capital funding.</p>

Key:

	Pass against annual target
	Fail against annual target
	Period target expected to be achieved
	Period target not expected to be achieved
	Recent improvements in data make direct comparison against FD target inappropriate.

5.0 Customer Service

5.1 How Customer Service is Assessed

We have adopted an Overall Performance Assessment (OPA) framework to monitor the level of service that NI Water provides to its consumers. The OPA combines individual service measures and scores them against a reasonable range. Scores are then weighted in order of importance and combined to give an overall picture of service level performance.

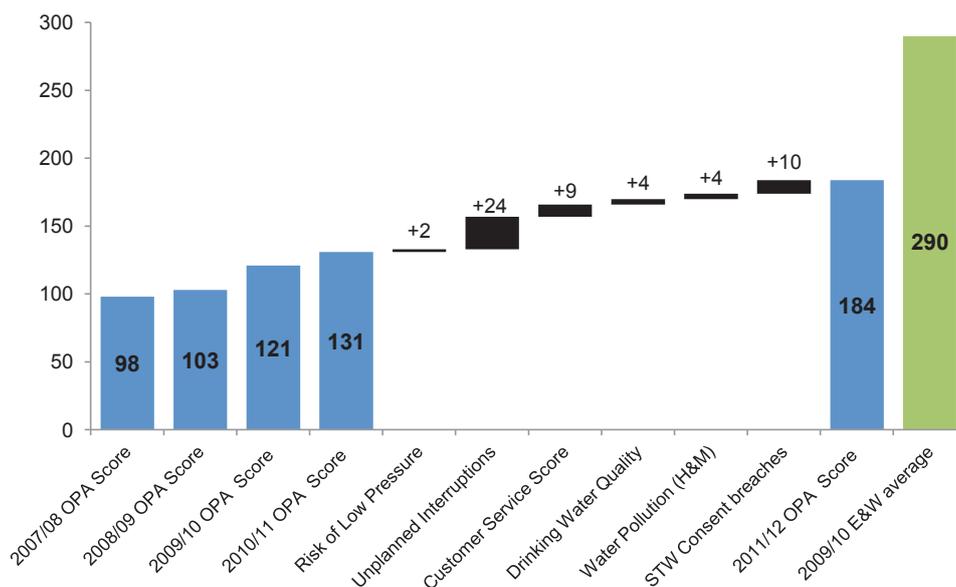
5.2 OPA Performance

The chart below details OPA improvements and the score shift in the past year.

Key messages include:

- NI Water has improved its overall OPA score to 184 for 2011-12, beating its PC10 OPA target (161) for the year by 23 points;
- a significant improvement in scores from service areas unplanned interruptions (+24) and customer contact (+9). This follows underperformance in the previous year where the company experienced major water supply disruptions due to the freeze / thaw event, as well as continued operational improvements by the company;
- wastewater (sewage) treatment works consent compliance has also improved significantly in the last year, resulting in an increase of 10 points. Drinking water quality and water pollution saw steady improvements; and
- comparison with English and Welsh companies, whose average score is 290⁶, illustrates that much remains to be achieved. Continued focus on service performance is essential if the company is to close the gap with the wider industry.

Figure 5.1: OPA score movements in the last year for NI Water



⁶ Figures for the England and Wales average refer to 2009-10 as the OPA system was discontinued by Ofwat from that reporting year onwards. However, it is unlikely that the averages would have seen much change in the subsequent period.

6.0 Principal Issues Of Note For 2011-12

We are continuing to hone our regulatory regime for NI Water and it is worth noting a number of principal issues pertinent to this reporting period. These relate to:

- sewer flooding;
- pollution incidents;
- freeze / thaw actions; and
- leakage.

6.1 Service to Customers

Sewer Flooding

Sewer flooding can occur when a sewer blocks, when equipment fails, or when the volume of rainfall entering the sewer exceeds its capacity. External flooding can be unpleasant but internal property flooding from the sewerage system has the most extreme impact on consumers. Consumers have identified this as their highest priority for action⁷.

DRD Water Service did not maintain comprehensive flooding records which would have allowed it to assess the risk of sewer flooding. Starting in 2007-08, we asked NI Water to develop a sewer flooding register as part of its Annual Information Return to us. The company now maintains records of reported flooding and has assessed a wide range of historic records to identify properties at risk of internal flooding. This work is largely complete and the company has identified 27 properties at risk of flooding more than once every 10 years and 189 properties at risk of flooding more than once every 20 years. The company is undertaking feasibility studies for these properties and has agreed to report the results of this work to us before the end of 2012. Experience in PC10 emphasises that good information is key to developing an effective programme of work to alleviate flooding.

When it proposed targets for PC10, the company thought that there might be up to 2,000 properties at risk of flooding at a frequency more than once in 10 years. It proposed to address 200 of these over PC10 and suggested an indicative profile of 100 in 2010-11 and 50 in each of the subsequent years. However, completing the work necessary to assess the risk of flooding and develop solutions prevented the company delivering any significant improvement in 2010-11. The subsequent PC10 change control process in 2011 took account of this and the targets for 2011-12 and 2012-13 were reduced to 23 and 20 properties respectively. We also agreed that work on properties at risk of flooding less than once in 20 years will be carried out and included as outputs in PC10 and PC13.

In 2011-12, the company addressed the risk of flooding at only 14 properties, nine fewer than planned for the year. The company has plans to recover performance in 2012-13 by addressing flooding risk at 42 properties, with work on a further 67 properties planned for PC13.

While information on the risk of sewer flooding has greatly improved, the investigation of future flooding events is likely to identify further work necessary to address sewer flooding. For example, investigation of the serious flooding caused by severe storms in the summer of 2012, must be taken into account when assessing future investment needs.

NI Water is still in the early stages of developing an external flooding register and we expect the company to proactively address this issue in the future.

⁷ Source 'Tapping into Consumer Views on Water' www.consumercouncil.org.uk/filestore/documents/Web_report.pdf

Pollution Incidents

Pollution incidents are recorded by Northern Ireland Environment Agency (NIEA) from reports from the public and its staff. They are classified by source, category, cause and severity. Severity is ranked as high, medium or low. NI Water's operations can sometimes lead to pollution incidents. Most common are those caused by discharges from overflows due to overloaded sewers or equipment failure.

The company has made progress in reducing pollution incidents and has outperformed the PC10 target for 2011-12. However, the overall level of pollution incidents remains high compared to performance by sewerage companies in England and Wales.

The company is nevertheless ahead of its revised target in the removal of unsatisfactory intermittent discharges (UIDs). The target was to remove 68 UID's during PC10; the company has already removed 64 and is likely to out-perform this. NI Water is to be commended for its recent increased rate of delivery of UID solutions.

The process for identification and removal of UID's, employed by NI Water and agreed with NIEA, continues to improve, to the benefit of both consumers and the environment.

6.2 NI Water Response to UR Freeze / Thaw Recommendations

Background

The freeze / thaw event of 2010-11 had a significant impact on consumers in Northern Ireland with around a quarter of connected properties experiencing supply interruptions.

Our investigation of NI Water's performance during the event identified major shortcomings, most significantly in its communication with consumers. However, it also found that consumer losses accounted for at least 80% of the additional demand at the peak of the incident and found no evidence to suggest that failures within the distribution system were exacerbated by any lack of investment in water mains.

Our investigation resulted in a recovery plan for NI Water. This comprised of 56 recommendations aimed at improving NI Water's ability to respond more effectively to future incidents in order to minimise the impact on consumers.

Progress in the Delivery of the UR Investigation Recommendations

During 2011-12, our focus was on establishing processes to help ensure the successful and timely delivery of the recovery plan recommendations by NI Water, particularly the short-term actions in advance of winter. We therefore sought and received a formal commitment from NI Water in relation to delivery. In addition, governance and monitoring arrangements were set up so that we and other stakeholders were regularly updated on progress.

NI Water made good progress on the delivery of the action plan during 2011-12. By the end of December 2011 the company had delivered all of its short-term formal commitments and had broadly met its delivery programme by completing 36 short-term actions. Four of the remaining seven short-term actions were subsequently completed by the end of the financial year. Key improvements delivered include:

- enhanced arrangements for escalating call centre resources;
- improved website functionality and capacity;
- increased telephony capacity and availability of interactive voice response system for providing information to consumers;
- improved contingency arrangements for isolation of assets and provision of alternative water supplies;
- amended emergency response procedures and systems to help ensure a strategic response, prioritise vulnerable customers, clarify mutual arrangements opportunities and improve information flow;
- delivery of a targeted and effective winter media campaign; and

- new systems and processes tested through a mock incident exercise in October 2011 and any lessons learnt subsequently acted upon.

Monitoring of delivery continues. This requires NI Water to provide ongoing updates to the wider stakeholder group with regard to delivery of longer-term actions and ongoing improvements as well as its annual winter contingency preparation.

Future Consumer Support

Continued consumer preparation and action are crucial if the impact of similar events is to be mitigated in the future, and we would encourage consumers to make appropriate preparations for the forthcoming winter. NI Water recently commenced its winter campaign for 2012-13 to help support and advise consumers on measures that can be taken to reduce the risk of pipe work freezing and/or bursting. Further information can be found on NI Water's website at www.niwater.com.

6.3 Leakage

Some level of leakage is inherent in the operation of a pressurised water distribution network. Water companies aim to achieve an Economic Level of Leakage (ELL). This balances the costs of the production with the cost of activity to control the level of leakage.

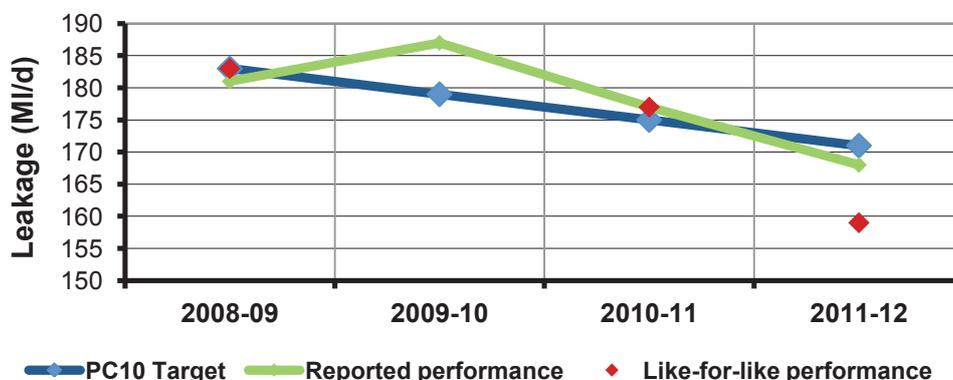
PC10 Performance

During PC10, the company has continued to improve the quality of information and the methodology used to estimate leakage. Such improvements however affect the level of leakage reported and must be taken into account when assessing performance on a like-for-like basis. They do not change the amount of leakage but simply provide a better estimate of what is already there. In particular:

- in 2010–11 the company improved its 'hour-day' factor. This increased reported leakage by 2MI/d and we adjusted PC10 targets by the same amount; and
- in 2011–12 the company completed data improvement work on property numbers. Use of this data has increased the reported level of leakage by 9 MI/d.

The PC10 leakage targets and reported leakage from 2008-09 to 2011-12 are shown in Figure 6.1. We have also shown leakage on a like-for-like basis against the PC10 targets, taking account of the changes described above.

Figure 6.1: Leakage performance 2008-09 to 2011-12



We estimate that NI Water has reduced leakage by 24 MI/d on a like-for-like basis between 2008-09 and 2011-12, an average of 8 MI/d per annum. Outperformance against the 2011-12 target is estimated as 12 MI/d. The intervening years have however not been typical so caution needs to be taken when comparing annual

reductions. For example:

- a 30-year freeze / thaw event mainly affecting the west of Northern Ireland occurred in the winter of 2009-10. Reported leakage figures included consumer losses;
- a greater than 100-year freeze / thaw event affecting the whole of Northern Ireland occurred in the winter of 2010-11. Reported leakage figures were adjusted to exclude losses on consumer premises; and
- 2011-12 was an unusually benign winter. Performance will have benefited as a result and so a similar level of reduction is unlikely to be repeated in the future.

Future Developments

The final major change that NI Water is planning to make to its methodology is the introduction of new leakage management software. This will further improve the quality of information and analysis, and assist it in targeting leakage reduction. Whilst we welcome the improvements being made by the company, we are conscious that such changes can make it difficult to assess leakage reductions on a like-for-like basis. The company will therefore continue to report leakage using its existing software in the final year of PC10, to help ensure that any movement reflects real improvements. Annual reporting using the new software will commence in PC13.

7.0 Future Price Controls And Reporting

Reporting annually on NI Water's costs and performance against our regulatory price controls will continue to be our customary practice. The periods relating to specific price controls are as set out below.

7.1 PC10 (2010-2013)

Next year 2012-13, is the final year of the PC10 price control period, and towards the end of 2013, we will publish a more substantial Cost and Performance Report. This publication will review and report on the performance of NI Water during its first price control PC10, and will cover the three years 2010 to 2013.

7.2 PC13 (2013-2015)

We are currently in the process of assessing NI Water's and other responses to our draft determination for the two-year price control period 2013 to 2015, referred to as PC13. Our draft determination for the two-year price control PC13 can be downloaded from our website at the following link. www.uregni.gov.uk/publications/pc13_draft_determination_summary

Our final determination for this two-year period will be published on 14 December 2012.

7.3 PC15 (2015-2021)

We are pleased to be adopting a longer-term, six-year price control from 2015 to 2021, referred to as PC15. Our approach and outline programme for this price control is set out in our Approach Document which can be downloaded from our website. www.uregni.gov.uk/publications/pc15_approach_document

Utility Regulator
Queens House
14 Queens Street
Belfast
BT1 6ED
Tel: 028 90 311575
www.uregni.gov.uk

