



Northern Ireland Branch

c/o RPS Consulting Engineers, Elmwood House, 74 Boucher Road, Belfast, BT12 6RZ, Northern Ireland
T +44 (0) 28 90667914 **F** +44 (0) 28 90668286 **E** ruth.barr@rpsgroup.com

Mr Keith Hunt
Water Regulation Directorate
Northern Ireland Authority for Utility Regulation
Queens House
14 Queen Street
Belfast
BT1 6ED

Dear Mr Hunt

**NORTHERN IRELAND BRANCH OF CHARTERED INSTITUTION OF WATER AND
ENVIRONMENTAL MANAGEMENT (CIWEM) RESPONSE TO:
DRAFT DETERMINATION SUMMARY DOCUMENT ON WATER AND SEWERAGE
SERVICE PRICE CONTROL 2010-2013**

The introduction of regulation into the water industry in NI will provide much needed transparency to the process of assessing NI Water's performance. CIWEM welcomes this initiative and the opportunity to comment on the Draft Determination.

CIWEM'S comments address the following issues;

FUNDING

The Draft Determination acknowledges that the water and sewerage industry is a long term industry; essential to the consumer, the economy and the environment. Funding arrangements need to enable long term investment to be planned and geared to providing a reliable and efficient service for everyone in Northern Ireland. A stable funding envelope for the three year period of PC10 is essential.

However it is only the NI Executive that can endorse the subsidy and funding allocation needed by NI Water.



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Should the Executive agree across-the board cuts then NI Water could have a third reduction on their PC10 Business Plan. This presents a level of risk to the allocation of funding and therefore to the provision of services.

CAPITAL EFFICIENCIES.

The Draft Determination benchmark analysis of NI Water's operational efficiency as compared to the English and Welsh water companies showed a 50% efficiency gap. This being the case, there is clearly scope to reduce costs. The critical issue is the speed with which NI Water can close the gap.

The efficiency adjustments in the draft determination assume that NI Water will close 75% (capital enhancement) and 60% (capital maintenance) of the gap between its efficiency and the upper quartile in England and Wales by the end of PC10.

The Water Companies expenditure has averaged £4 Billion per year since 1989. NI Water has experienced significant under-investment for many years and it is only in the past 6 to 7 years that funding has reflected the levels of expenditure identified in NI Water Asset Management Plans.

CIWEM's concern is that pressures to dramatically reduce the efficiency gap over a short period will put customers and the environment at risk.

EXPENDITURE LEVELS

The draft determination proposes an overall revenue requirement which is 11% lower than NI Water's Business Plan figure, while also including £38m of funding for additional essential outputs agreed with key stakeholders.

This has been achieved by reducing capital and operational scope of NI Water's Business Plan and then setting challenging but achievable efficiency targets.



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This combination of disallowed costs and demanding efficiencies may put the delivery of services at risk.

LEVEL OF INVESTMENT

The Determination states that while NI Water's level of investment in PC10 will be less than the investment in 2007-10, the overall level of investment remains at higher levels per property than investment in England & Wales. The overall level of investment proposed for PC10 is £259 per property compared to expenditure of £125 to £243 per property included in the recent draft determinations for England and Wales for 2010-15. Sustaining this higher level of capital expenditure in the medium to long term will continue to increase costs to consumers.

A more meaningful figure would be the culminative investment since 1989 per property in England and Wales compared to N.I. This would provide a perspective for the level of catch-up required and inform a meaning timeline for achieving a similar performance.

SUSTAINABLE DEVELOPMENT

Modern wastewater treatment plants are able to produce an effluent that has a negligible impact on the receiving watercourse. The efficacy of such treatment is evidenced by the continuous improvement in the quality of our rivers which NIEA acknowledges.

However modern wastewater treatment plants delivering stringent Quality Standards generate pollution, principally as a result of its high energy usage and release of greenhouse gases (GHG's) such as carbon dioxide, methane and nitrous oxides and the impact of GHG's on our climate is widely recognised.



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Enhancements to wastewater treatment may deliver environmental benefits, *inter alia*: a spot compliance regime, effluent disinfection, odour control, nitrogen removal and sludge pasteurisation, which are unsustainable from a holistic environmental viewpoint

The challenge for both the regulator and the water companies is to balance the environmental costs and benefits of wastewater treatment in a manner that considers the wider environmental impacts and not solely the aquatic environment.

CIWEM notes NIAUR intention to address the expected impact of climate change on NI Water's operation, the need to reduce carbon emissions and anticipated changes in legislation, as well as future maintenance needs.

In conclusion, CIWEM is concerned that NIAUR has set unrealistic challenges for NIW (a company still in its infancy) and that the consumer and the environment will suffer the consequences.

Yours Sincerely
For CIWEM

Ruth Barr
Chairperson, Northern Ireland Branch, 2009-2010