

Northern Ireland Water
Finance and Regulation
Directorate
Mark Royal House
70-74 Donegall Street
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BT1 2GU



Tel: 028 90 244711

Jo Aston
Director of Water Regulation
NIAUR
Queen's House
14 Queen's Street
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BT1 6ER

Date: 13th September
2007

Dear Jo

Reference Notice: NIW Licence Condition B Part 15

As you are aware, for NIW to initiate an Interim Determination of the Domestic Base Allowed Revenue or non-Domestic Based Allowed Revenue for the financial year 2008/09, the NIW Licence Condition B Part 15 requires that a Reference Notice be given to the Utility Regulator not later than 15 September 2007.

This letter is a Reference Notice (as indicated in Condition B Part 15) referring to Notified Items and Relevant Changes of Circumstances which are expected to have a substantial adverse effect on NIW and which could not have been avoided by prudent management action.

The Shareholder advised you (23 March 2007) of the following Notified Items:

- Changes up or down in the number of meter optants
- Additional costs incurred as a result of the Streetworks (Amendment) (Northern Ireland) Order 2006
- Payments under Guaranteed Service Standards
- Expenditure on new and replacement mains or sewers in support of new developments
- Increases in legacy pension deficit funding contribution
- Loss of abstraction licence as a consequence of the Water Framework Directive

NIW contend that there will be a substantial adverse effect on its financial position in 2008/09 as a consequence of the following notified items:

- An increase in the number of domestic meter optants
Changes in metering policy will lead to substantial increases in cost for NIW which will be in excess of the relevant materiality thresholds.

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- The introduction of Guaranteed Service Standards
Guaranteed Service Standards including those associated with low water pressure and sewer flooding are being developed by the Utility Regulator. The additional costs to NIW will be substantial and will be in excess of the relevant materiality thresholds.

NIW also believe that the following relevant change of circumstances will have a significant adverse effect on NIW's financial position in 2008/09:

- An increase in electricity tariffs as a consequence of the introduction of the Single Electricity Market

Given the inherent uncertainty associated with the above and the unknown outcome of the review of the Independent Panel, NIW are unable to further specify the materiality of the notified items and relevant changes of circumstances discussed above.

It is requested that the Utility Regulator consider increases to the Domestic Base Allowed Revenue and non-Domestic Base Allowed Revenue in line with the substantial adverse impact of the Notified Items and Relevant Changes of Circumstances discussed above.

If you require further clarification of the above, please contact me directly.

Yours sincerely

Ronan Larkin
Director of Finance and Regulation, NIW