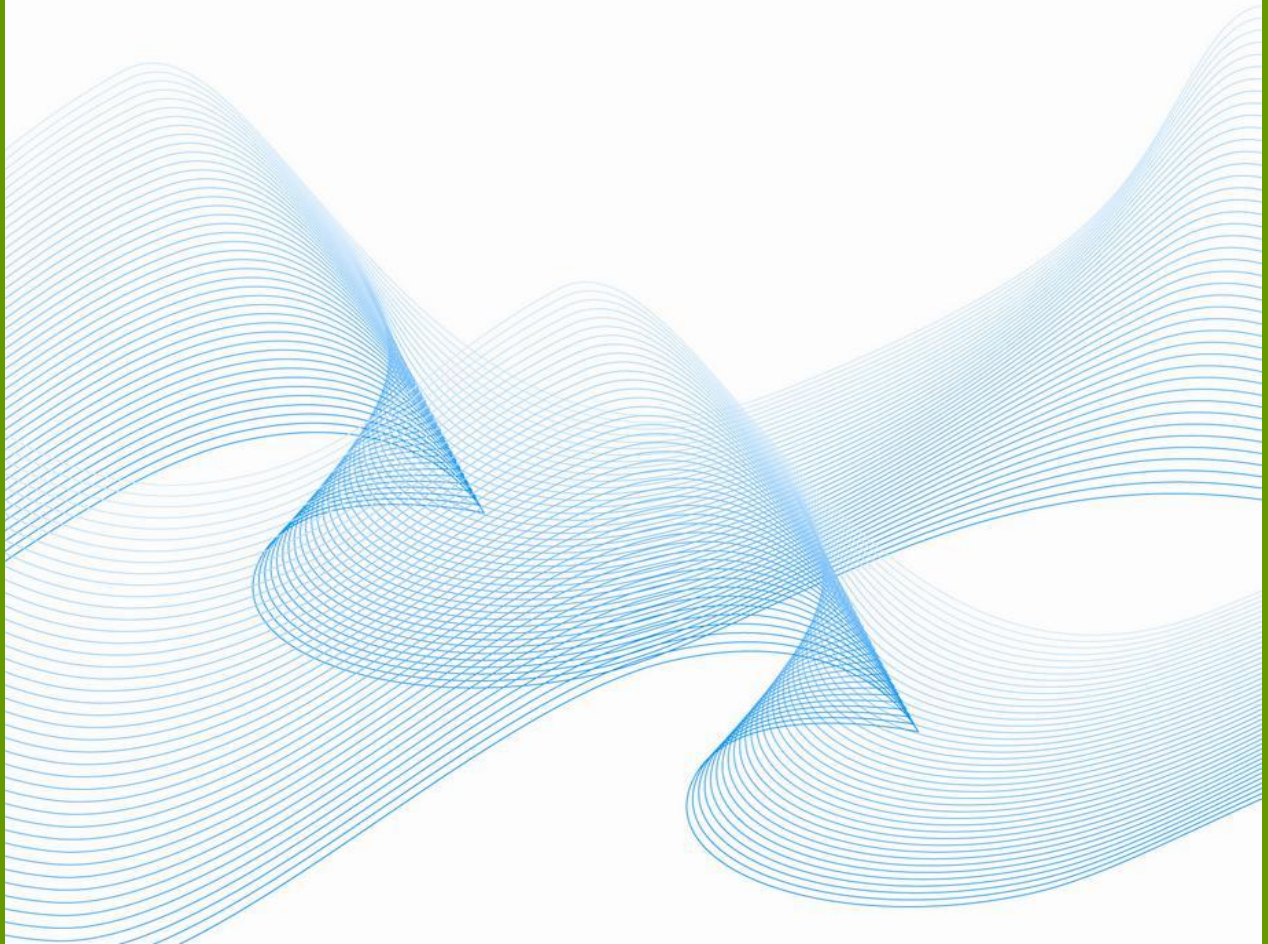




Water Directorate

Report on NI Water's Scheme of Charges for 2011-12

September 2011



Report on NI Water's Scheme of Charges for 2011-12

Foreword

This document reports our findings on NI Water's 2011-12 Scheme of Charges.

The Scheme of Charges sets out what NI Water will charge its customers for all the services it provides as a water company. These services include the supply of drinking water, the collection, treatment and disposal of wastewater, road drainage and surface water and the treatment and disposal of trade effluent. The company also provides additional services such as water/sewerage connections, inspections, tankering, sewer adoptions and testing.

The NI Executive agreed to suspend domestic charging for 2011-12. This means that domestic customers will not receive a bill direct from NI Water for the services it provides in 2011-12. The company is required nevertheless to calculate what the charges would be, so that we can assure ourselves that those customers who are paying NI Water directly for its services (business customers for example), are paying only for the service they receive.

As a result of the NI Executive decision to suspend direct domestic charging, NI Water did not charge any domestic customers for water and sewerage services. The Independent Water Review Panel estimated that in 2006-07 the average domestic property contributed approximately £160 from their annual rates bill towards the costs of providing water and sewerage services in Northern Ireland. This analysis was accepted by the Northern Ireland Executive.

Non-domestic metered sewerage charges were implemented in full from 1st April 2009. However the NI Executive also agreed to introduce a domestic allowance of up to 190m³ p.a. for measured non - domestic sewerage customers (that pay full business rates) from 1st April 2009. A domestic allowance of up to 200m³ p.a. for measured non - domestic water customers (that pay full business rates) had previously been introduced on 1st April 2008¹. The domestic allowance compensates non-domestic customers for domestic consumption, given that subsidy is being paid on behalf of domestic customers by the NI Executive.

We have a legal duty to approve NI Water's Scheme of Charges once we are satisfied that the charges are appropriately apportioned between the various customer groups and that any Ministerial guidance has been taken into consideration. We are not permitted by law to use the Scheme of Charges approval process to try to reduce charges overall, i.e., as a substitute for a price control. In other words, we ensure that customer groups are paying for the service they receive and are not being subsidised by other customers groups, or are themselves not subsidising other customers. Where we consider that cross-subsidy does exist and this has not been addressed in the year in question, we will

¹ The 2007-08 Scheme of Charges contained a domestic allowance of 134m³ for measured non - domestic water customers based on the expectation at that time that domestic charges would be phased in from 2007-08.

agree with the company and where necessary with the Department for Regional Development (“DRD”), how and over what period of time any cross-subsidy is to be removed.

A handwritten signature in black ink, appearing to read 'Jo Aston', written in a cursive style.

Jo Aston
Director of Water

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1.0 Summary

1.1. Domestic Customers

1.1.1. The average (notional) cost of providing water and sewerage services to each domestic household in Northern Ireland is £410 in 2011-12, which equates to just over £1 per day.

1.1.2. As a result of the NI Executive's decision to suspend direct domestic charging, NI Water will not charge any domestic customers for water and sewerage services in 2011-12.

1.1.3. The Independent Water Review Panel estimated that in 2006-07 the average domestic property contributed approximately £160 from their annual rates bill towards the costs of providing water and sewerage services in Northern Ireland. This analysis was accepted by the Northern Ireland Executive.

1.2. Non – Domestic Customers

1.2.1. Where a metered water customer pays full business rates for their metered property NI Water will provide a domestic allowance for water and sewerage services.

1.2.2. For a typical notional small metered business with a usage of 285m³ p.a. and a supply pipe size diameter of <20mm this reduces the bill from £866.70 to £357.43 in 2011-12.

1.2.3. For a typical notional large metered business with a usage of 1306m³ p.a. and a supply pipe size diameter of >100mm this reduces the bill from £6,740.39 to £6,231.12 in 2011-12.

1.2.4. As it is not possible for NI Water to offer a volumetric domestic allowance to unmeasured customers, NI Water unmeasured water and sewerage charges will in 2011-12 continue to be billed at 50% of the full charge as was the case in 2010-11. For a typical notional unmeasured business with a nett annual value of £8,000 this reduces the bill from £503.49 to £251.74 in 2011-12.

Domestic Allowance for measured non - domestic customers

1.2.5. The NI Executive agreed to introduce a domestic allowance of up to 190m³ p.a. for measured non - domestic sewerage customers (that pay business rates) from 1st April 2009. A domestic allowance of up to 200m³ p.a. for measured non - domestic water customers (that pay business rates) had previously been introduced on 1st April 2008.

1.2.6. The domestic allowance compensates non-domestic customers for domestic consumption, given that subsidy is being paid on behalf of domestic customers by the NI Executive. NI Water has confirmed that currently approximately 29% of measured non - domestic customers have not availed of the domestic allowance. NI Water has agreed to be more pro-active e.g. by means of an insert on each six monthly bill, in offering the domestic allowance to applicable measured non - domestic customers i.e. those measured non - domestic customers that pay full business rates.

Assessed Charges

1.2.7. Assessed Charges are available to non-domestic customers who do not use water in a manufacturing or other industrial process and when it has not been possible for NI Water to install a water meter.

1.2.8. While all NI Water Scheme of Charges from 2007-08 to 2009-10 had indicated that an 'assessed charge' may be provided, NI Water have clarified that no non – domestic customers had applied for an 'assessed charge' before 1st April 2010.

1.2.9. In 2010-11 NI Water agreed with the view of the Utility Regulator that an assessed charge should be proactively offered to customers who query the value of unmeasured bills. Customers now have the option of being billed on an unmeasured basis according to the Nett Annual Valuation (NAV) of their property or on the basis of Assessed Charges. Customers who opt to be billed according to an 'assessed charge' will not have the option of reverting to unmeasured bills based on NAV.

1.2.10. The 'assessed charge' consists of two elements – a standing charge (at the same value as the standing charge for unmeasured non-domestic properties) and a variable charge determined from the water-using appliances on the property.

Infrastructure Charges

1.2.11. NI Water can raise infrastructure charges for connecting premises for domestic purposes to a public water main or to a public sewer for the first time. We set an upper limit on this charge. The infrastructure charge for 2011-12 is £276 per connection.

1.3. Transparency of Charges

1.3.1. Previously, as part of our analysis of the 2010-11 Scheme of Charges we reviewed sample correspondence from NI Water to its customers on billing and charging issues. We concluded that correspondence from NI Water to customers must contain sufficient detail which allows customers to understand how their total bill has been calculated (in particular where multiple charges are incurred) and which facilitates the customer to reconcile their bill to the relevant Scheme of Charges. We have recently evidenced some improvements in transparency of charges but further improvements could be made in certain types of charges e.g. developer related charges, connection charges. NI Water has indicated to the UR that it will strive to maintain good customer

relations by continually reviewing how and when relevant information is given to the customer.

1.4. Effect of Economic downturn

1.4.1. The non - domestic income available to NI Water in 2010-11 was negatively affected by the continuing economic downturn. NI Water through the PC10 process forecast a decline in income available from the non-domestic sector in the period to 2013-14. Our price caps for 2011-12 took account of the NI Water forecast of continuing decline in income available to NI Water from the non-domestic sector.

1.5. Overall view of charges

1.5.1. Overall, we believe that charges in the NI Water 2011-12 Scheme of Charges represent a fair apportionment of costs. This is subject to two caveats.

Trade effluent charges: these charges are not currently fully cost reflective. NI Water has agreed to unwind the existing cross subsidy from non - domestic measured sewerage customers to trade effluent customers by 2012-13.

Unmeasured non - domestic charges: currently (and historically) there has been a variance between the estimated average volume of water consumed by unmeasured non - domestics as recorded by NI Water in its 'water balance' and Annual Information Return compared to its tariff model. NI Water recognises that this variance needs to be closed as soon as possible and not later than the end of the PC10 period. It is possible that the correction of this variance could affect the calculation of the unmeasured non - domestic charge.

2.0 Our Approach to NI Water's Scheme of Charges

2.1. The role of the Utility Regulator

2.1.1. The Northern Ireland Authority for Utility Regulation (the Utility Regulator) assumed responsibility for regulating water and sewerage services in Northern Ireland on 1 April 2007.

2.1.2. Northern Ireland Water (NI Water), the regulated company responsible for providing water and sewerage services, is required to submit its annual Scheme of Charges to the Utility Regulator for approval.

2.1.3. NI Water charges customers for water and sewerage services in Northern Ireland in accordance with Article 200 of 'The Water and Sewerage Services (N.I.) Order 2006'. These services include: the supply of drinking water; the collection, treatment and disposal of wastewater, road drainage and surface water; the treatment and disposal of trade effluent.

2.1.4. This report summarises NI Water regulated charges for 2011-12. It describes our approach to assessing and approving NI Water charges scheme, and sets out our policy on tariff issues.

The Scheme of Charges

2.1.5. The Scheme of Charges sets out what NI Water will charge its customers for the services it provides as a water and sewerage company. These services include the supply of drinking water, the collection, treatment and disposal of wastewater, road drainage and surface water; and the treatment and disposal of trade effluent. The company also provides additional services such as water/sewerage connections, inspections, tankering, sewer adoptions and testing

2.1.6. A key contextual issue for the 2011-12 Scheme of Charges, was the decision by the NI Executive to further postpone the introduction of domestic water charging, originally scheduled to commence from 1 April 2007.

2.1.7. Whilst this means that domestic customers will not receive a bill direct from NI Water for the services it provides, the water company has to calculate the cost that should be borne by domestic customers, so that we can be assured that paying customers (notably business customers), are paying only for the service they receive. Moreover, and for transparency reasons, we required NI Water to show notional domestic charges within their Scheme of Charges for 2011-12.

2.1.8. We have a legal duty to approve these charges once we are satisfied that the charges are appropriately apportioned between customer groups and that any Ministerial guidance has been taken into consideration. Specifically, our role is to make sure that customers are paying for the service they receive and are not being subsidised by other customer groups, or are themselves not subsidising other customers. Where we consider that cross-subsidy does exist, we will agree with the company how and over what period of time any cross-subsidy is to be eliminated.

2.1.9. In line with NI Executive policy, standard and miscellaneous charges e.g. application / assessment fees for sewer adoption, have been charged at 100% since 1st April 2009. These charges had been implemented on a phased basis since 1st April 2007 i.e. 1/3 charge in 2007-08 and 2/3 charge in 2008-09.

Our report on the Scheme of Charges

2.1.10. The report on the Scheme of Charges 2011-12 describes our approach to approving and assessing NI Water's charging scheme and formally sets out NI Water's approved charges. It is our intention that we will publish each year a report setting out our view on NI Water's Scheme of Charges.

2.1.11. We received NI Water's final Scheme of Charges for 2011-12 on 15th March 2011. This was approved by us on the 23rd March 2011. The document itself had been through a number of drafts following a significant and worthwhile period of consultation between NI Water, the Consumer Council and the Utility Regulator. This allowed NI Water to proceed with issuing charges to the non-domestic sector for 2011-12.

2.2. Major factors determining our approach to the Scheme of Charges

2.2.1. We work from the principle that water charges should, as far as possible, broadly reflect the costs of providing each service. Our work is also informed by reference to our statutory duty to ensure that no undue preference is shown and that there is no undue discrimination in the setting of charges.

We make sure that charges set by NI Water are consistent with:

- Licence Condition B (of NI Water's licence), which requires that overall changes in charges comply with the price cap from 2010-11 and therefore price limits determined by the Utility Regulator as part of the PC10 final determination;

- Licence Condition E, which requires that tariffs should not be unduly preferential or unduly discriminatory. We interpret this to mean that, where possible, there should be no cross-subsidy between different classes of customer;
- Guidance on charging matters from the Minister for Regional Development;
- Our duty to protect customers and to contribute to achievement of sustainable development.

Additional Considerations

2.2.2. As well as taking account of the high-level approach described above, we emphasise the following points when approving the Scheme of Charges:

- Charges for water and sewerage services should broadly reflect the costs of providing each service.
- NI Water should provide a range of suitable payment options for customers to pay their bills.
- NI Water should maintain a fair balance between metered sewerage charges and trade effluent charges. Differences in bills should only reflect differences in the volume and strength of the effluent.
- Customers should not see significant changes in their bills from year to year if either water use, revenue caps or price limits do not change markedly (after taking account of any relevant phasing).

3.0 Our Assessment of NI Water's Scheme of Charges

3.1. Price Limits for 2011-12 Scheme of Charges

3.1.1. 2011-12 represents the second year NI Water has submitted a Scheme of Charges within a price cap regime. Prior to 2010-11 the NI Water Scheme of Charges were submitted under a revenue cap regime.

3.1.2. Under the PC10 price control we had a legal duty to set the "adjustment factor" for each year, generally referred to as the price limit or the K factor, to be applied over the Price Control period i.e. 2010-11 to 2012- 2013. The K factor is the percentage increase or decrease above or below inflation by which tariff basket price limits are allowed to rise or fall on an annual basis during the Price Control period.

3.1.3. We utilise price limits within the various tariff baskets to ensure that the correct revenue is raised from each customer group and also to assure ourselves that there is no cross-subsidy between the customer groups. In setting the price limits, we were mindful of the Social and Environmental Guidance and sought to balance affordability with compliance and customer priorities.

'K' Factors for 2011-12

3.1.4. We are committed to improving the transparency of the regulatory regime. As part of this commitment, we believe that it is vital that non-domestic customers can more readily understand the likely impact of the Price Control on their bills (or level of subsidy).

3.1.5. Tariff baskets are defined in Condition B of the licence to cover the regulated (core) services provided by NI Water. The use of tariff baskets helps to ensure that the process of unwinding any cross subsidies is as transparent as possible. In addition, we consider that tariff baskets allow (directly-paying) customers to see more clearly the likely impact of the Price Control 2010 on their bills. The use of "tariff baskets" mirrors the price-setting process of other utility regulators in the UK, such as Ofwat and WICS.

3.1.6. A Price Limit regime establishes a clear link between the Price Control and any direct bills that customers pay (currently non-domestic customers). We believe that setting price limits will allow non-domestic customers to understand the likely impact of any tariff changes on their bill for the relevant period.

3.1.7. The K factor is the percentage increase above or below inflation by which Tariff Basket price limits are allowed to rise on an annual basis during the Price Control period.

3.1.8. The Price Limits for 2011-12 are shown in table 1. We have reviewed NI Water's 2011-12 Scheme of Charges submission and can confirm that it was compliant with price limits determined in the PC10 final determination². The price limits for sewerage services are higher than price limits for water services as an increasing proportion of the costs incurred by NI Water are in relation to sewerage services.

Table 1: Price Limits for 2011-12

Tariff Basket	2011-12
Unmeasured Water Supply	-3.3%
Unmeasured Sewerage Service	1.4%
Measured Water supply	-1.8%
Measured Sewerage Service	4.3%
Trade Effluent	-1.3%
Overall Weighted Average K-Factor	-0.6%

NI Water has decided to limit the increase in any non domestic tariffs for 2011-12 to a maximum of 4.71% i.e. the level of inflation used for the 2011-12 Scheme of Charges. This has resulted in an unused 'K' factor of 2.33%.

Table 2 shows the actual tariff basket price increases (excluding inflation) for 2011-12.

Table 2: Actual Tariff Basket Increases for 2011-12 (excluding RPI)

Tariff Basket	2011-12
Unmeasured Water Supply	-6.4%
Unmeasured Sewerage Service	-1.1%
Measured Water supply	-1.8%
Measured Sewerage Service	0%
Trade Effluent	-1.3%
Overall Weighted Average K-Factor	-3%

² NI Water charges are set each financial year (April to March) with respect to the RPI measured in November of the previous year (as specified in Condition B of the NI Water licence). The annual price limits determined in the PC10 Final Determination apply relative to actual RPI inflation each November from 2009 to 2012.

3.2. Current Structure of Charges in Northern Ireland

Customer Groups

3.2.1. In terms of defined customer groups, there are essentially nine and these are as tabulated below.

Table 3: Customer Groups

Domestic	Non-Domestic
Un-metered Water	Un-metered Water
Un-metered Sewerage	Un-metered Sewerage
Metered Water*	Metered Water**
Metered Sewerage*	Metered Sewerage**
	Trade Effluent

*In Northern Ireland, however, no domestic customers are charged on the basis of metering at present so there are no customers in these categories.

** In principle all business customers should be metered. As at 1st April 2011 of a total of approximately 85,000 customers (excluding large users), approximately 13,000 remain unmeasured and these are predominately small businesses with relatively small water consumption. These customers pay their water charges based upon the notional value of the property or alternatively may be provided with an assessed charge. NI Water is continuing its non-domestic metering programme and has forecast that approximately 87% of non - domestic customers will be metered by the end of 2012-13.

3.2.2. For un-metered customers (both domestic and non-domestic), charges (be they notional or otherwise) were based upon the capital or Nett Annual Value of the property or business premises. For domestic properties, the notional water and sewerage charges are directly proportional to the capital value of the property, for 2011-12 up to a cap of £400,000 (as for 2010-11). There is no increase in the notional charge above this value.

For business premises, charges were directly proportional to the Nett Annual Value (NAV) and for 2011-12 are capped at a maximum bill for water supply of £840 each or £420 after 50% discount (compared with £830 or £415 after 50% discount for 2010-11) and at a maximum bill for sewerage services of £860 each or £430 after 50% discount (compared with £830 or £415 after 50% discount for 2010-11). In line with NI Executive policy, there is a 50% discount on unmeasured non - domestic charges

3.2.3. Customers that are connected to a public water supply but are not connected to the sewerage network, farms for example, will pay a water charge but not pay a sewerage charge. Such customers would normally discharge their wastewater to a septic tank or private sewage treatment works and pay a separate charge for the disposal of wastewater/sludge arising. For 2010-11 NI Water did not charge domestic customers for the first emptying of a septic tank. The same policy will apply for the 2011-12 charging year.

Structure of Charges

3.2.4. The structure of charges for 2011-12 is the same as those for 2010-11. Charges (where applicable) to individual customers will vary according to the type of customer and the service they are receiving.

Customers are classified as:

- Water or wastewater;
- Domestic (household) or non-domestic (non - household businesses, charities or public sector organisations);
- Measured (metered), un-measured (un-metered); and,
- Trade effluent.

Domestic Unmeasured Water (Notional)

3.2.5. The unmeasured domestic (household) notional charge is based on the Capital Value of each household property. This notional charge does not depend on consumption. Currently the unmeasured domestic (household) charge is paid via subsidy from DRD.

Domestic Unmeasured Wastewater (Notional)

3.2.6. The unmeasured domestic (household) notional charge for wastewater is also based on the Capital Value of each household property. This notional charge includes the cost of treating surface water run-off from properties, but excludes drainage from public roads and footways etc. Currently, the unmeasured domestic (household) charge is paid via subsidy from DRD.

Domestic Measured Water (Notional)

3.2.7. Currently no domestic customers pay for water services charges based on usage.

Domestic Measured Wastewater (Notional)

3.2.8. Currently no domestic customers pay for wastewater services charges based on usage.

Non-Domestic Unmeasured Water

3.2.9. Unmeasured non-domestic customers are currently charged relative to the rateable value of their property. These customers pay two fixed charges, neither of which reflects their consumption of water: a minimum charge for access to the network and an

additional charge that is a proportion of their rateable value. Currently, there is a 50% subsidy in place for non-domestic unmeasured water charges.

Non-Domestic Unmeasured Wastewater

3.2.10. Charges for unmeasured non-domestic wastewater are also a function of the connected property's rateable value. Customers pay two separate fixed charges: a minimum charge for accessing the network and a charge that is in proportion to their rateable value. Currently, there is a 50% subsidy in place for non-domestic unmeasured wastewater charges.

Non-Domestic Measured Water

3.2.11. Measured non-domestic customers pay a standing charge, which depends on the size of their meter connection and a volumetric charge based on how much water they consume. Currently, there is a domestic allowance subsidy in place for non-domestic measured water charges. The domestic allowance is 200m³ for those non-domestic measured water customers which pay full business rates.

3.2.12. There are discounts on the volumetric rate for customers who use large volumes of water i.e. annual consumption of over 100,000m³. However, eligibility for the large user tariff (as shown in table 4) depends on consumption and on the commitment of the customer to water efficiency. This may include, but is not restricted to, the installation of water saving devices, recycling plants and a review of water efficiency by independent industry experts.

Table 4: Volumetric rates for Large Water Users for 2011-12

Consumption Band	Discount	Volumetric Rate (£/m ³)
Annual consumption up to 100,000m ³	None	1.0424
Annual consumption over 100,000 and up to 250,000m ³	20%	0.8339
Annual consumption over 250,000 and up to 500,00m ³	25%	0.7818
Annual consumption over 500,000m ³	30%	0.7297

Non-Domestic Measured Wastewater

3.2.13. Non-domestic wastewater customers pay a fixed charge based on the size of their water meter connection and a volumetric rate based on an assumption that 95% of their water consumption is returned to sewer. If a customer can demonstrate that less than 95% of water returns to sewer (for example, a company that uses water in its production processes) then they can apply to have the assumption of 95% reduced. Currently, there is a domestic allowance subsidy in place for non-domestic measured wastewater charges. The domestic allowance is 190m³ for those non-domestic measured wastewater customers which pay full business rates.

3.2.14. There are no discounts for customers who discharge large volumes of wastewater.

3.2.15. The cost of receiving and treating property surface water drainage for non-domestic measured wastewater is included in the tariff for measured wastewater.

Trade Effluent

3.2.16. Charges for trade effluent are based on the Mogden formula. This formula assesses a charge for the treatment of a particular strength and volume of effluent, based on the costs of treating this wastewater.

3.2.17. Trade effluent customers pay a variable rate based on the actual volume and strength of the effluent discharged.

The Mogden formula is: $C = R + V + (O_t/O_s)B + (S_t/S_s)S$

Where:

C	is the unit charge in pence per cubic metre for the trade effluent discharge.
R	is the unit cost in pence per cubic metre of reception and conveyance of sewage.
V	is the unit cost in pence per cubic metre of the volumetric and primary treatment of sewage treated and disposed of in sewage treatment works.
O_t	is the chemical oxygen demand in mg/l of the trade effluent after 1 hour quiescent settlement.
O_s	is the chemical oxygen demand in mg/l of the settled sewage standard strength.
B	is the unit cost in pence per cubic metre of the biological oxidation treatment of settled sewage.
S_t	is the total suspended solids in mg/l of the trade effluent at pH 7.
S_s	is the total suspended solids in mg/l of crude sewage – standard strength.
S	is the unit cost in pence per cubic metre of treatment and disposal of primary sludge.

Road Drainage

3.2.18. In Great Britain customers pay a proportion of their sewerage charges for the collection and treatment of surface water drainage (rainwater that falls onto properties, driveways and is channelled to the sewerage network) and highway drainage (run-off from roads and pavements). The cost of dealing with rainwater is complicated by the fact that some surface water in rural areas would be collected by separate drainage network and would be discharged directly to water-courses, whilst a proportion of urban drainage (within cities and towns) would normally be collected by the sewerage network and discharged to a sewage treatment works.

3.2.19. The cost of providing these facilities in Great Britain is paid for by sewerage customers. This is due to the fact that legislation in Great Britain does not permit any alternative method of cost recovery. In Northern Ireland, however, such legislation does not exist and following the accepted recommendation of the Independent Water Review Panel, the costs of collecting and treating drainage from roads is to be recharged to DRD Roads Service and is financed through general taxation. This reduces the amount of revenue to be raised directly from NI Water's customers.

3.2.20. The cost of dealing with surface water is allocated across the sewerage customer groups (with the exception of trade effluent customers), in the same proportion as the relative volumes of wastewater produced. The Utility Regulator intends to review NI Water's underlying assumptions used in the calculation of sewerage surface water drainage, roads drainage and trade effluent volumes during the PC10 period. Table 5: shows the Road Drainage re-charge to DRD Roads Service for 2011-12.

Table 5: Road Drainage re-charge to DRD Roads Service

	2011-12
Road Drainage re-charge (£m)	20.13

3.3. Water and Sewerage Charges (Tariffs) 2011-12

3.3.1. In accordance with the company's Licence and the Water and Sewerage Services (Northern Ireland) Order 2006, all charges set by NI Water must be approved by the Utility Regulator.

3.3.2. Although domestic charges are notional for 2011-12, the overall cost to be borne by domestic customers has to be calculated to ensure that there is no undue discrimination between customer groups, even where domestic revenue and part of the non-domestic revenue are provided by DRD as a subsidy.

3.3.3. The company's approved and published Scheme of Charges for 2011-12 together with 2010-11 charges for comparative purposes is summarised in table 6

Table 6: Domestic (household) customers' notional charges

Description of Charge	2010-11 charge	2011-12 charge
<u>Unmeasured water tariff</u>		
Variable Charge (£/£000 capital value)	1.5479	1.5695
Charge cap (standing charge + variable charge) (£)	619.15	627.81
Charge for lock-up garages (£)	3.00	3.00
<u>Affordability Tariff (water):</u>		
Capital value up to and including £70,000 (£)	47.30	47.96
Capital value over £70,000 up to and including £100,000 (£)	70.95	71.94
Capital Value over £100,000 (£)	94.60	95.93
<u>Unmeasured sewerage tariff</u>		
Variable Charge (£/£000 capital value)	2.0029	2.1431
Charge cap (standing charge + variable charge) (£)	801.14	857.25
Charge for lock-up garages (£)	4.00	4.00
<u>Affordability Tariff (sewerage):</u>		
Capital value up to and including £70,000 (£)	49.43	52.90
Capital value over £70,000 up to and including £100,000 (£)	74.15	79.34
Capital Value over £100,000 (£)	98.87	105.79

Note: NI Water did not issue bills to domestic customers in 2010-11 and will not issue bills to domestic customers in 2011-12. The NI Executive through the Department for Regional Development will provide the funding for these services on domestic customers' behalf.

3.3.4. The notional average bill for domestic customers for 2010-11 was £178 for water supply and £220 for sewerage services, a total of £398. The total notional average bill for domestic customers for 2011-12 is £178 for water supply and £232 for sewerage services, a total of £410. The NI Executive currently pays NI Water for these services on behalf of those customers who are not being billed. Currently the average notional domestic bill is based upon the capital value of each household property.

Table 7: Average (notional) domestic bill (outturn prices)

	2010-11	2011-12
NI Water average notional domestic bill (water supply)	£178	£178
NI Water average notional average notional domestic bill (sewerage services)	£220	£232
NI Water total average notional domestic bill	£398	£410

3.3.5. The average domestic bill across all companies in England and Wales for 2010-11 was £339 compared with £356 for 2011-12. The average domestic bill for Scotland was £324 for 2010-11 and remains at £324 for 2011-12. However the average domestic bill in G.B. includes the costs associated with Road Drainage. The average (notional) domestic bill in Northern Ireland excludes the costs associated with Road Drainage as these costs are re-charged to DRD Roads Service. Including the costs of Road Drainage in the calculation of the average (notional) domestic bill in Northern Ireland would have increased the average (notional) domestic bill in Northern Ireland by approximately £20 for both 2010-11 and 2011-12.

3.3.6. Table 8 shows the average water and sewerage charges for the UK for both 2010-11 and 2011-12

Table 8: Average UK household bills for water and sewerage services 2010-11 and 2011-12 (notional for Northern Ireland) – outturn prices

	2010-11			2011-12			Total Change	
	Water	Sewerage	Total	Water	Sewerage	Total	£	%
Water and sewerage companies								
Anglian Water	£168	£213	£381	£177	£221	£398	16	4.1
Dwr Cymru	£165	£232	£397	£171	£240	£411	11	2.7
Northumbrian:								
North East	£141	£170	£311	£153	£183	£336	24	7.8
Essex & Suffolk	£183	£170	£353	£204	£183	£387	17	9.1
Severn Trent	£159	£142	£301	£164	£147	£311	13	4.3
South West	£205	£282	£487	£217	£300	£517	25	5.1
Southern	£131	£242	£373	£142	£255	£397	24	6.4
Thames	£189	£114	£303	£196	£123	£319	13	4.1
United Utilities	£171	£188	£359	£182	£194	£376	14	3.9
Wessex	£203	£205	£408	£218	£210	£428	19	4.6
Yorkshire	£150	£177	£327	£157	£182	£339	11	3.4
England & Wales Industry average (weighted)	£165*	£174	£339	*£174	£182	£356	16	4.6
*Including water only companies (not shown)								
Scottish Water			£324			£324	0	0
NI Water	£178	£220	£398	£178	£232	£410	12	3.0
<ol style="list-style-type: none"> 1. Figures may not add due to rounding 2. The calculation of the average G.B. household bill includes the costs associated with Road Drainage. 3. Bill changes have been rounded to the nearest whole £ (for example, an increase of £16.57 will be written as an increase of £17. Some percentage totals may therefore not add due to rounding. 4. The England and Wales industry weighted average includes water only companies (not shown). 								

Table 9: Non - domestic (Non-household) customers – Unmeasured Charges

Description of Charge	2010-11 charge	2011-12 charge
<u>Unmeasured water tariff</u>		
Standing Charge (£)	26.01	26.50
Variable Charge (£/£000 nett annual value)	10.00	10.19
Charge cap (standing charge + variable charge) (£)	415	420
Unmeasured animal drinking trough system (£)	114.57	112.68
NOTE: charges shown at 50% of full charge		
<u>Unmeasured sewerage tariff</u>		
Standing Charge (£)	34.22	35.83
Variable Charge (£/£000 nett annual value)	12.88	13.49
Charge cap (standing charge + variable charge) (£)	415	430
NOTE: charges shown at 50% of full charge		
<u>Assessed Water Tariff</u>		
Standing Charge (£) – full charge applies as domestic allowance is available	Loading units	53.00
Assessed Charge – (£) per loading unit per annum	Loading units	5.60
<u>Assessed Sewerage Tariff</u>		
Standing Charge (£) – full charge applies as domestic allowance is available	Loading units	71.66
Assessed Charge – (£) per loading unit per annum	Loading units	8.10

3.3.7. NI Water unmeasured charges for water and sewerage services are paid by non-domestic customers who are occupying properties connected to the water main and public sewer but who are not being billed for measured charges (since they do not have a meter). The ongoing programme of metering in the non-domestic sector by NI Water will see an increasing number of these customers metered.

3.3.8. There are two elements to both the water and sewerage unmeasured charge:

- A standing charge applied to all unmeasured properties and
- A variable charge based on the property valuation.

3.3.9. For non-domestic properties the property valuation is the Nett Annual Valuation (NAV) assigned to the premises in the Land and Property Services (LPS) non-domestic list.

3.3.10. As it is not possible for NI Water to offer a volumetric domestic allowance to unmeasured customers, NI Water unmeasured water and sewerage charges will in 2011-12 continue to be billed at 50% of the full charge as was the case in 2010-11. Table 10 shows the impact of the 50% discount and shows how unmeasured (unmetered) tariffs

translate into a bill for a typical notional unmetered business with a nett annual value of £8000.

Table 10: Typical notional unmetered business bill

	Typical bill (outturn prices)			
	2010-11	2010-11 (after 50% discount)	2011-12	2011-12 (after 50% discount)
Water: standing charge	£52.01	£26.01	£53.01	£26.50
Water: variable charge (£/£000 nett annual value e.g. in 2011-12 for £8000 NAV variable charge is £10.19 per £000RV = £10.19 x 8 = £81.51)	£160	£80	£163.02	£81.51
Sewerage: standing charge	£68.44	£34.22	£71.67	£35.83
Sewerage: variable charge (£/£000 nett annual value e.g. in 2011-12 for £8000 NAV variable charge is £13.487 per £000RV = £13.487 x 8 = £107.89)	£206.08	£103.04	£215.78	£107.89
NI Water total typical notional unmetered business bill	£486.51	£243.26	£503.49	£251.74
<p>1. Based on an annual Nett Annual Value of £8,000. 2. Figures may not add due to rounding.</p>				

Assessed Charges

3.3.11. NI Water has improved the transparency of charging for 'assessed charges' for 2011-12 by showing both the standing charge and variable charge elements for the assessed charge. The 'assessed charge' consists of two elements – a standing charge (at the same value as the 100% standing charge for unmeasured non-domestic properties) and a variable charge determined from the water using appliances on the property. Where a customer pays business rates for their property a domestic allowance will be available.

Table 11: Non - domestic (Non-household) customers – Measured Charges

Description of Charge	2010-11 charge	2011-12 charge
<u>Measured water tariff</u>		
Standing Charge (£):		
Water supply pipe size up to 20mm	66	68
Over 20mm up to 25mm	110	113
Over 25mm up to 40mm	200	206
Over 40mm up to 50mm	315	324
Over 50mm up to 75mm	620	638
Over 75mm up to 100mm	1,123	1,156
Over 100mm	1,595	1,641
Volumetric charge (£m ³)	1.0130	1.0424
Large user volumetric charge (over 100,000 up to 250,000m ³)	0.8104	0.8339
Large user volumetric charge (over 250,000 up to 500,000m ³)	0.7598	0.7818
Large user volumetric charge (Over 500,000m ³)	0.7091	0.7297
Building Water volumetric charge (£/m ³)	1.0130	1.0424
Domestic allowance (m ³ per annum)	200	200
<u>Measured sewerage tariff</u>		
Standing Charge (£):		
Water supply pipe size up to 20mm	70	73
Over 20mm up to 25mm	117	122
Over 25mm up to 40mm	212	222
Over 40mm up to 50mm	335	350
Over 50mm up to 75mm	659	690
Over 75mm up to 100mm	1,192	1,248
Over 100mm	1,694	1,774
Volumetric charge (£m ³)	1.5119	1.5831
Domestic allowance (m ³ per annum)	190	190
<u>Trade effluent tariff</u>		
(R) Reception charge (£/m ³)	0.1934	0.2000
(V) Volumetric charge (£/m ³)	0.2181	0.2256
(B) Biological charge (£/m ³)	0.1445	0.1494
(S) Sludge charge (£/m ³)	0.1684	0.1742
Standard strength combined charge (£/m ³)	0.7245	0.7492
Standard strength Chemical Oxygen Demand (mg/l)	377	355
Standard strength suspended solids (mg/l)	290	268

Measured water and sewerage tariffs

3.3.12. NI Water measured water and sewerage charges are paid by occupiers of non-domestic properties at which a water meter has been installed by NI Water. There are two elements to measured water and sewerage charges:

- A standing charge based on the diameter of the supply pipe serving the property; and
- A volumetric charge based on the consumption recorded on the water meter

3.3.13. Where a metered water customer pays full business rates for their metered property NI Water will provide a domestic allowance. The domestic allowance is subtracted from the volumes recorded by the meter, prior to calculating the volumetric charge. NI Water existing non – domestic metered customers who received a domestic allowance for water supplied during 2010-11 will receive the same allowance in 2011-12. Table 12 shows the impact of domestic allowance and shows how volumetric tariffs translate into a bill for a typical notional small metered business with an usage of 285m³ p.a. and supply pipe size diameter of <20mm.

Table 12 – Typical notional small business metered bill

	Typical bill (outturn prices)	
	2010-11	2011-12
Water: standing charge	£66	£68
Water: volumetric charge (£/m ³ e.g. for 2011-12 285m ³ x £1.0424 = £297.08)	£288.71	£297.08
Less: domestic allowance (e.g. for 2011-12 200m ³ x £1.0424 = £208.48)	(£202.6)	(£208.48)
Sewerage: standing charge	£70	£73
Sewerage: volumetric charge (£/m ³ e.g. for 2011-12 285m ³ x 95% x £1.5831 = £428.62)	£409.34	£428.62
Less: domestic allowance (e.g. for 2011-12 190m ³ x 1.5831)	(£287.26)	(£300.79)
NI Water total typical notional small metered business bill	£344.19	£357.43
<ol style="list-style-type: none"> 1. Represents combined bill for water and sewerage services after deduction of subsidy element for domestic allowance. Domestic allowance available to non – domestic customers that pay full business rates. 2. Calculated based on assumed usage of 285m³ per annum and assuming a customer supply pipe size diameter of <20mm. 3. Based on 95% return to sewer. 4. Figures may not add due to rounding. 		

3.3.14. Table 13 shows the impact of domestic allowance and shows how volumetric tariffs translate into a bill for a typical notional large metered business with an usage of 1306m³ p.a. and supply pipe size diameter of >100mm.

Table 13 – Typical notional large business metered bill

	Typical bill (outturn prices)	
	2010-11	2011-12
Water: standing charge	£1595	£1641
Water: volumetric charge (£/m ³ e.g. for 2011-12 1306m ³ x £1.0424 = £1361.37)	£1322.98	£1361.37
Less: domestic allowance (e.g. for 2011-12 200m ³ x £1.0424 = £208.48)	(£202.6)	(£208.48)
Sewerage: standing charge	£1694	£1774
Sewerage: volumetric charge (£/m ³ e.g. for 2011-12 1306m ³ x 95% x £1.5831 = £1964.02)	£1875.81	£1964.02
Less: domestic allowance (e.g. for 2011-12 190m ³ x 1.5831)	(£287.26)	(£300.79)
NI Water total typical notional large metered business bill	£5998	£6231.12
<ol style="list-style-type: none"> 1. Represents combined bill for water and sewerage services after deduction of subsidy element for domestic allowance. Domestic allowance available to non – domestic customers that pay full business rates. 2. Calculated based on assumed usage of 1306m³ per annum and assuming a customer supply pipe size diameter of >100mm. 3. Based on 95% return to sewer. 4. Figures may not add due to rounding. 		

Trade effluent tariffs

3.3.15. Trade effluent charges are charges made to business customers who discharge wastewater from an industrial process to sewer, either directly or via tanker. Examples of such industries would be bakeries, breweries, metal plating companies, car-washes etc. This waste is often stronger than domestic sewage and consequently the charge for its disposal is based upon its strength as well as its volume.

3.3.16. During 2011-12 NI Water continued to reconcile data relevant to trade effluent tariffs. We understand that NI Water has continued to improve the reconciliation of data between its trade effluent register, trade effluent data base and billing information. The Annual Information Return for 2011 shows that NI Water's trade effluent data is based on 100% actual volumetric and strength data, rather than extrapolations of partial actual data, as was the case in previous years.

3.3.17. We will carry out further work during 2011-12 in respect of trade effluent charging to confirm that the approach taken by the company in respect of standard sewage strengths, standard trade effluent strengths and apportionment of costs is appropriate.

Trade effluent tariff differential

3.3.18. Ofwat, the English and Welsh water and sewerage regulator, checks the differential, i.e. the difference in cost, e.g. between household metered sewerage and trade effluent charges. That is, it checks that for a similar service, one customer group is not subsidising another customer group.

3.3.19. In other words, the cost of discharging trade effluent to sewer of a strength comparable to that of domestic sewage should be the same and *vice versa*. Ofwat would normally carry out this check on metered household sewerage and consider the charges are broadly in balance if the difference falls within a range ± 5 p/m³; i.e. that trade effluent customers and sewerage customers do not subsidise each other.

3.3.20. It is not possible at present to carry out this analysis for NI Water charges because there are no domestic metered customers in Northern Ireland. However, the differential between non - domestic metered sewerage and trade effluent customers can be determined as an equally viable alternative.

3.3.21. Based on data provided by NI Water we have calculated the implied metered volumetric sewerage charge for 2010-11/2011-12 as 158.31 p/m³ and our calculations using Ofwat's procedure show that the weighted trade effluent charge is around 97.59 p/m³. Adding the cost of surface water drainage imposed on customers, which equates to around 51.11 p/m³, customers are paying approximately 149 p/m³ for trade effluent. Similar to Ofwat we allow a differential between metered sewerage and trade effluent of ± 5 p/m³. The differential in 2008-09 was approximately 27 p/m³. We required the company to unwind within a 5 year period. The differential for 2011-12 is approximately ± 10 p/m³. It is possible that improvements in NI Water data could effect the calculation of the trade effluent tariff differential in future years.

3.3.22. Therefore, while there remains a cross subsidy from non – domestic metered customers to trade effluent customers NI Water remains on track to unwind this cross subsidy within the 5 year period agreed in 2009-10.

Reasonable Cost Allowances for extensions to the public water main or sewer

3.3.23. Extensions to the public water main or sewer network may be provided by NI Water on receipt of a Requisition Notice from the owner or occupier of any premises in the locality provided that the company's conditions are met. This includes agreement on the point of connection and where applicable the payment of the requisition costs of providing that main or sewer by the persons making the request.

3.3.24. In calculating the cost to be taken by the person making the requisition, NI Water make a contribution in the form of a reasonable cost allowance in respect of water to premises or drainage of premises for domestic purposes. These allowances are available to offset the cost of water main and sewer requisitions – situations where developers require an extension to the water main or sewer in order to service a new development.

3.3.25. In accordance with DRD policy, different allowances are in operation for properties constructed before 1 January 2000 (which had not previously been connected to mains water or the public sewer), as opposed to properties constructed from 1 January 2000.

3.3.26. Table 14 shows the reasonable cost allowance both for existing and new properties for 2011-12.

Table 14: Reasonable Cost Allowance (2011-12)

	New Properties (Post 1 January 2000)	Existing Properties (Pre 1 January 2000)
Water main	£1,692	£10,000
Sewer	£2,322	£4,000

Note: An application fee of £300 is payable at the time of application for extension to the public main or sewer network. This is non-returnable if NI Water issued the decision letter having initially undertaken the technical and economic appraisal study and the applicant subsequently decides not to proceed.

Infrastructure Charges

NI Water can raise infrastructure charges for connecting premises for domestic purposes to a public water main or to a public sewer for the first time. We set an upper limit on this charge. The infrastructure charge for 2011-12 is £276 per connection.

Miscellaneous Charges

NI Water includes a number of non-standard charges within their scheme of charges. These 'miscellaneous charges' cover a variety of services which NI Water may provide as a wider undertaker, but which are not included within the tariff basket. Examples include:

- charges for reconnection,
- non-domestic meter installations,
- meter testing,
- hydrant installation and
- standpipe hire.

While we do not usually investigate these charges which are unregulated, we monitor them to make sure that they are broadly cost-reflective.