

Introduction

Northern Ireland Water Ltd (NIW) has prepared a Public Summary of its PC10 Business Plan (BP) in line with the requirements of NIAUR as part of a series of submissions for the price-setting process. The purpose of the BP is to inform stakeholders of proposed future service standards and to set out a supported and costed business case with associated outputs, costs and price impacts. The BP will be used by NIAUR to determine and confirm appropriate outputs and service levels and the necessary funding assumptions which will allow NIW to finance their operations over the PC10 (2010 to 2013) period.

Reporter's Role

The Reporter's role is to provide independent opinion to NIAUR on the Company's BP by checking compliance with regulatory requirements and advising NIAUR of material discrepancies. NIAUR approves Reporter appointments and regulates their activities through an agreed protocol.

The purpose of the Reporter's Summary is to provide independent commentary on the processes established by NIW which ensure that their public summary is adequately and accurately supported by the other components of their BP submission dated 15 June 2009. The Reporter is also required to confirm or otherwise whether the Company has facilitated sufficient and timely access to their supporting information to allow the Reporter's team to scrutinise and challenge the underlying data, assumptions, methodologies, processes, proposals and investment requirements.

Based upon NIAUR's Reporting Requirements, an audit plan was prepared and approved. This set out our approach to the scrutiny of each chapter of the BP submission. We have followed this approach, varying the level of audit according to complexity and materiality of emerging issues.

We have audited all the principal underlying studies and processes which support NIW's BP and have, on a sample basis, tested the application of assumptions and methodologies into representative schemes within each investment programme.

We have provided commentaries on each section of the Company's BP and have identified a relatively small number of areas where we believe material issues exist which may influence the conclusions to be made by NIAUR in their Determination.

Background

Customer surveys have been undertaken by CCNI to determine NIW's customer's priorities for service enhancements. These have been reflected in the DRD's 'Environmental and Social Guidance for Water and Sewerage Services'. NIW has used this and other information to help determine which service enhancements, business improvements and other activities should be incorporated into the plans for the PC10 period.

Water and sewerage companies in England and Wales were privatised in 1989 and through the 1990's invested heavily in enhancing compliance with EU directives and in developing complex systems to improve effectiveness and to report on outputs and performance to Ofwat. Since 2000, focus has moved to improving knowledge and understanding of the asset base with the aim of reducing underlying maintenance costs.

NIW has been operating as a commercial business since 2007. Having emerged from the civil service, some important business needs require significant enhancement, not least of which is the lack of asset condition and performance data. This has led NIAUR to reduce their expectations of NIW in the areas of supplying robust data on their asset inventory and in justifying investment on capital maintenance.

Cooperation from the Company

Despite the very tight timescales, we have enjoyed good co-operation from the Company and the required access to appropriate staff. Audits have been carried out in a helpful and constructive environment and information has been made available in a timely manner when requested. We have been provided with draft versions of the various sections and tables upon request and a complete version was provided immediately following the Company's submission of the BP to NIAUR. We also confirm that the Company has endeavoured to proactively address any concerns or issues we have raised both prior to and following the submission of their BP.

Whilst the timing of our appointment as Reporter has been sufficient to enable effective scrutiny and challenge of the BP, it did not allow for involvement in the formative stages. This would have deepened understanding and broadened perspective on NIW's preparations, the inter-relationship between different programme areas and provided additional assurance that the Company's approach to the BP was the most effective.

We have provided feedback to the Company's management, liaising throughout with their PC10 team. We also presented our interim findings to the Board of Directors on the 10 June 2009, prior to their endorsement of the Company's submission.

Reporter's Opinion

We have audited NIW's proposals on a sample basis and reviewed and reported on the components of the BP as directed by the Reporting Requirements. We confirm that NIW has prepared and presented a well structured and carefully considered Plan, that

- addresses the regulatory targets and requirements which are more certain;
- accommodates for their ongoing asset maintenance needs;
- embraces the forecast variations in supply and demand arising from growth/movements in the customer base; and
- incorporates the priorities indicated by DRD and the views of customers on priorities for service improvements.

We confirm that the numerical information and assumptions for the Public Summary are drawn from and are representative of the BP, but note some transcription (block A, D2-1) and rounding errors.

We have reviewed NIW's proposed efficiency initiatives and believe they are challenging.

Maintenance spend on the water service is forecast to be similar to current levels. Whilst sewerage infrastructure maintenance is set to rise significantly, non-infrastructure is forecast to reduce. Levels of capital maintenance investment in sewerage are less certain and though some specific outputs are identified, it is largely based upon historic trends. We have reviewed NIW's methodologies and believe them to be reasonable, given the lack of data – an issue which they are in the process of addressing for PC13.

NIW has a poor Security of Supply Index and aims to improve this through strengthening the water storage and transmission systems. This is the primary investment driver on Supply/demand balance. They have engaged with DRD/NIEA to establish their priorities.

The capital programmes are substantial and have been scoped and costed using standard Company processes which we have scrutinised and challenged. Quality enhancement priorities have been discussed with the regulators. Due to their legacy, NIW lacks robust data on non-infrastructure project costs. This undermines confidence in the forecasts, many of which are still necessarily outline carrying contingencies to cover uncertainties. However, with that caveat, the estimates represent unbiased forecasts of likely outturn costs. Infrastructure programmes are based on more robust costs and have been developed holistically, but information on sewer flooding and UID compliance is still of poor quality: these programmes have been reduced because of this uncertainty.

Despite the recency of their commercial existence, we believe that the Company has made best endeavours to address the issues required and to present a strategy which combines good future stewardship of their regulated functions with the known obligations and their customers' expectations. Apart from several identified areas of uncertainty, we believe it to be a well founded, reasonably costed and adequately financed Business Plan.