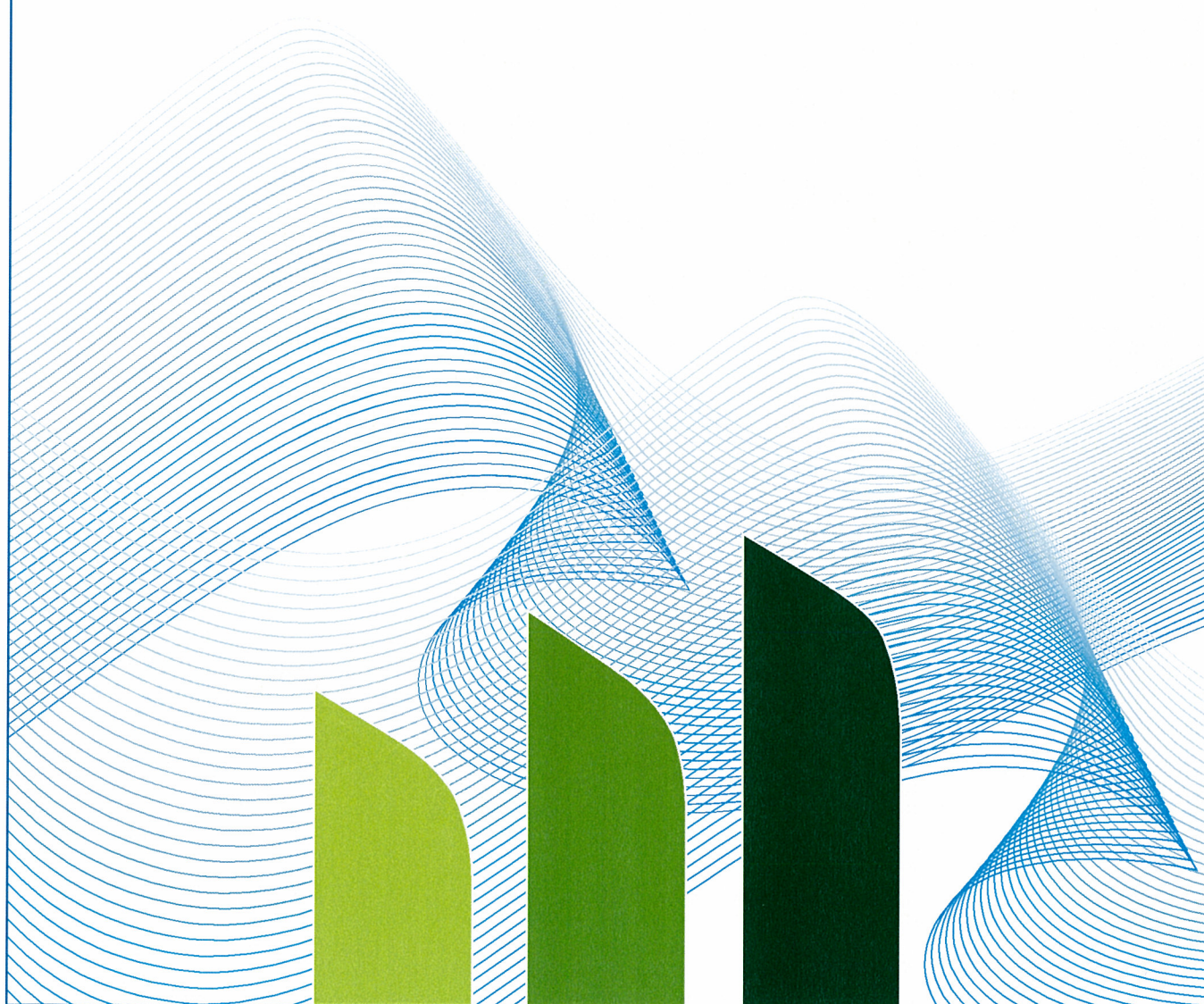


The Utility Regulator's Report on Northern Ireland Water Scheme of Charges 2008 – 2009

September 2008



Overall view of Charges

Overall, we believe that charges in the NI Water 2008-09 Scheme of Charges represent a fair apportionment of costs. This is subject to two caveats relating to trade effluent charges, and to treatment of closures of large customers, which are discussed below.

Average Notional Domestic Bill

According to NI Water, the notional average bill for domestic customers for 2008-09 would be £171 for water supply and £187 for sewerage services, a total of £358. DRD will pay 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.

The average domestic bill across all companies in England and Wales for 2008-09 is £331 and the average domestic bill for Scotland is £310. However, the highest average domestic bill for a single company in England and Wales for 2008-09 is £497. This is £139 more than the NI Water average notional domestic bill for 2008-09.

Trade Effluent

Trade effluent prices have been increased by an average of 14% from 2007-08. Nevertheless, we are not satisfied that the charges yet fully recover costs. We are engaging with the company to satisfy ourselves that the charges to this customer group are fully cost reflective. We will provide an update on this issue in our 2009-10 Scheme of Charges report.

Closure of Large Business Customers

Our investigation into 'The Release by Northern Ireland Water Limited of Information Relating to its Costs and Tariffs' highlighted that NI Water had provided conflicting information to the Utility Regulator in relation to the closure of major commercial businesses in 2008-09. As a result of this investigation the Utility Regulator required commitments from NI Water including full and comprehensive engagement with the Utility Regulator to address outstanding areas of concern, including this issue.¹

The Utility Regulator will therefore engage with NI Water to agree an appropriate solution to phasing the effect (if appropriate) of the closure of major commercial businesses in 2008-09.

¹ The Utility Regulators' investigation report 'The Release by Northern Ireland Water Limited of Information Relating to its Costs and Tariffs' is available on our website: [http://www.niaur.gov.uk/pdf%20files/Water%202008/Water%20Investigation%20Report%2020708%20\(2\).pdf](http://www.niaur.gov.uk/pdf%20files/Water%202008/Water%20Investigation%20Report%2020708%20(2).pdf)

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1. INTRODUCTION

1.0 The Role of the Utility Regulator

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.

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 from 2008-09 onwards.

NI Water charges customers for water and sewerage services in Northern Ireland in accordance with Article 200 of the Order. 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.

This report summarises NI Water regulated charges for 2008-09. It describes our approach to assessing and approving NI Water charges scheme, and sets out our policy on tariff issues.

1.1 The Scheme of Charges

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, roads 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.

A key contextual issue for the 2008-09 Scheme of Charges, was important decisions taken by the NI Executive. The NI Executive decided that the introduction of domestic water charging, scheduled to commence from 1 April 2007, would be postponed until 2009, and to also amend the phasing-in of some non-domestic charges (50% for 2008-09 with full charges being implemented from 2009-10).

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 2008-09 although the methodology employed to do so was based on recommendations of the Independent Water Review Panel (IWRP) as instructed by the responsible Minister, Conor Murphy.

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.

1.2 Our report on the Scheme of Charges

As part of good regulatory practice, it is our intention that we will publish each year a report setting out our view on NI Water's Scheme of Charges. The report on the Scheme of Charges 2008-09 describes our approach to approving and assessing NI Water's charging scheme and formally sets out NI Water's approved charges. Our report also, as part of the conclusion section of the document, provides some recommendations in relation to the setting of a Scheme of Charges for the following year.

We received NI Water's final draft Scheme of Charges on 18 March 2008. This was approved by us on the 21 March 2008, after requiring NI Water to make amendments. This allowed NI Water to proceed with issuing charges to the non-domestic sector for 2008-09.

2. OUR APPROACH TO NI WATER'S SCHEME OF CHARGES

2.0 Major factors determining our approach to the Scheme of Charges

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 revenue cap;
- 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 e.g. NI Water's revenue cap; and,
- Our duty to protect customers and to contribute to achievement of sustainable development.

2.1 Additional considerations

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. OUR ASSESSMENT OF NI WATER'S SCHEME OF CHARGES

3.0 NI Water required revenue for 2008- 09

In order for NI Water to submit its final Scheme of Charges it must first calculate its required revenue for the charging year.

The main factors that impacted on NI Water required revenue for 2008-09 and thus ministerial guidance were:-

- The significant re-assessment of the volumes of service consumed by different customer groups, and the consequent increase in the costs attributed to domestic customers. This would not in itself have affected the overall revenue requirement, since it would have been balanced by lower costs in the non-domestic sector. However, that it was decided that the extra revenue for domestic services would be foregone, with the company's revenue being rebalanced by means of the mitigation measures shown in table 1.

Table 1: NI Water mitigation measures

£ millions	2008-09
Higher domestic costs due to cost apportionment issue	16.8
Less mitigation	
Additional efficiencies	3.5
Reduction in capital base maintenance	3.8
Reduction in retained earnings	3.7
Bad debt provision not required	5.8
Residual extra revenue required	nil

- The treatment of the Retail Price Index @ 2.5%
- The accounting treatment of base maintenance
- An increased efficiency target of £3.5m
- The Road Drainage recharge to Department for Regional Development (DRD) Roads Service of £17.18m

The final revenue requirement for NI Water for 2008-09 was determined at £339.36m.

3.1 Revenue Raised by Northern Ireland Water

Given NI Water's assessment of total revenue required i.e. £339.36m, tariffs were determined depending upon a number of factors, including:-

- how many customers there are in each customer group,
- the value of the property or business of that customer,
- how much water they use (where metered), or are determined as using (where not metered),
- how much wastewater is produced (whether metered or un-metered as above),
- for trade effluent, the volume and strength of the trade waste produced,
- the application, if at all, of any standing charges,
- the phasing in of any charges, with subsidy from government; and,
- the depreciation of the company's assets.

The total costs of NI Water in providing the water and sewerage services to its customers were then apportioned across the customer groups. In this way customers pay only for the service they receive.

For sewerage, the cost associated with handling and disposing of road drainage was first deducted before charges are calculated. This cost, some £17.18m for 2008-09 was recharged to DRD Roads Service. This recharge was recommended by the Independent Water Review Panel and accepted by the DRD Minister. The cost of dealing with surface water (rain water run-off from buildings and public areas is however, as in Great Britain, recovered from customers.

It should be noted that, at present, NI Water allocates costs to customer groups in a different way to water companies in Great Britain. The company does not, as yet, have the business management systems in place to enable it to determine the actual costs of providing services to its different types of customers or different types of services. Instead, it allocates what it spends in total on water and sewerage across the customer groups and services (including road drainage and surface water drainage for sewerage) according to the volumes of water associated with each group, and, in the case of wastewater, both the volume discharged by each group and the relative strength of the wastewater.

For un-metered customers (both domestic and non-domestic), charges (be they notional or otherwise) were based upon the capital or Net Annual Value of the property or business premises. For domestic properties, the notional water and sewerage charges were directly proportional to capital value of the property, for 2008-9 up to a cap of £400,000. There is no increase in the notional charge

above this value. This methodology was based on recommendations of the Independent Water Review Panel as the Executive has not yet agreed a methodology for household payments. For business premises, charges were directly proportional to the Net Annual Value (NAV) and are at present capped for water supply and sewerage services at a maximum bill of £770 each.

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

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, and NI Water are working to ensure this is the case. However, at present a significant proportion of business customers remain un-metered.

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 2008/09 NI Water will not charge for the first emptying of a septic tank.

3.2 Customer Numbers and Water Volumes

Prior to 1st April 2007, Northern Ireland Water was an agency within DRD, i.e. Water Service, and was not subject to any formal independent economic regulation. Furthermore, other than for non-domestic metered water and trade effluent, DRD Water Service did not charge any other customers directly for the services received. The information held by DRD Water Service on these non-charged customer groups was of poor quality. When NI Water began to validate and update these data, to enable it to raise revenue from all of its customers, the need to rebalance the revenue raised from the different customer groups became evident. This was because new data indicated that some customers were consuming different volumes of water to what had previously been assumed. As a consequence, the amount of subsidy required from DRD was affected.

The Licence requires the company, on or before 31st January each year, to submit an Interim Principal Statement (IPS). This statement reports the revenue raised from customers. In particular, it reports changes in the number of customers, the volumes of water/sewerage attributable to customers and the revenue it has raised and expects to raise, from the prior and current year. Tariffs are then adjusted for the following year, having been approved by the Utility Regulator. This is an annual process and ensures that customers only pay for the service they receive.

For the IPS submission of 31st January 2008 (IPS 2008), we requested that the technical auditor (the Reporter) carry out a review of the submission, and also the assumptions in the company's tariff model. The Reporters subsequent report of February 2008 made a number of recommendations, all of which were accepted by NI Water and a number of these were acted upon immediately.

During 2008 the Reporter will also compare the customer numbers and water volumes submitted in the IPS 2008 with those to be submitted in the company's Annual Information Return (due August 2008). This process ensures that changes to customers charges, are based upon recent, accurate and audited data. The company's licence also requires the financial aspect of the IPS submissions to be audited by external auditors.

NI Water's licence states it has some 63,700 metered and 42,000 un-metered water customers. This totals 105,700 non-domestic water customers. Following detailed investigations by NI Water and its contractors, the company has reported, in its March 2008 tariff model, 62,004 metered customers and 20,999 un-metered customers, a total of 83,003. This reduction in numbers of customers, and the volumes of water attributable to those customers, resulted in the required revenue previously being allotted to this group, having to be distributed across the other customer groups. This became part of the re-apportionment issue.

We would expect that the number of business (non-domestic) customers of NI Water should be similar to the number of business customers of Northern Ireland Electricity, in that the majority of businesses in Northern Ireland would have a single water supply and a single electricity supply. NIE (Transmission and Distribution) has reported to us that its non-domestic customer base is currently 56,965. This excludes farms, which NI Water class as non-domestic and number approximately 30,000. This indicates that NI Water figure of 83,003 non-domestic customers is likely to be more accurate than the original 105,700 stated in the Licence.

3.3 Water and Sewerage Charges (Tariffs) 2008-09

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.

Although domestic charges are notional for 2008-09, 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.

The company's approved and published scheme of charges for 2008-09 is summarised overleaf:-

3.3.1. Domestic (household) Customers

Domestic

Description of Charge	Full Charge 2008/09	2008/09 Discount
<u>Unmeasured water tariff</u>		
Variable charge (£/£000 capital value)	£1.5105	100%
Charge cap (standing charge + variable charge) (£)	£604	100%
Charge for lock-up garages (£)	£3	100%
<u>Affordability Tariff (water):</u>		
Capital value up to and including £70,000 (£)	£46.43	100%
Capital value over £70,000 up to and including £100,000 (£)	£69.65	100%
Capital value over £100,000 (£)	£92.86	100%
<u>Unmeasured sewerage tariff</u>		
Variable charge (£/£000 capital value)	£1.7325	100%
Charge cap (standing charge + variable charge) (£)	£693.01	100%
Charge for lock-up garages (£)	£3	100%
<u>Affordability Tariff (sewerage):</u>		
Capital value up to and including £70,000 (£)	£46.43	100%
Capital value over £70,000 up to and including £100,000 (£)	£69.65	100%
Capital value over £100,000 (£)	£92.86	100%

Note: NIW will not issue bills to domestic customers in 2008/09. The Department for Regional Development will pay for these services on domestic customers' behalf.

3.3.2 Domestic (household) Customers

Domestic customers will be charged (notionally) according to the capital value of the property. At present no domestic properties are charged by meter.

The average bill for England and Wales for 2008-09 for all domestic customers, and across all companies, has been reported by OFWAT as £157 for water and £174 for sewerage, an overall average of **£331**.

The average domestic un-metered bill in Scotland has been reported by Scottish Water as **£310**.

According to Northern Ireland Water, the notional average bill for domestic customers for 2008-09 would be £171 for water supply and £187 for sewerage services, a total of **£358**. DRD will pay NI Water for these services on behalf of those customers who are not being billed.

The **highest average** bill for any individual company in England and Wales is **£497**, for domestic customers of South West Water. This is £139 more than the NIW average notional bill for 2008-09. Table 2 shows the average water and sewerage charges for the UK.

Table 2: Average water and sewerage charges for the UK

Average household bills for water and sewerage 2008-09

	£ Water	£ Sewerage	£ Total
Water and sewerage companies			
Anglian Water	168	209	377
Dŵr Cymru	164	222	386
Northumbrian:		166	
North East	128	(166)	294
Essex & Suffolk	161	(166)	327
Severn Trent	147	145	292
South West	204	293	497
Southern	126	233	359
Thames	171	115	287
United Utilities	163	196	359
Wessex	196	199	395
Yorkshire	151	172	323
England & Wales Industry average (weighted)	157*	174	331
*Including water only companies (not shown)			
Scottish	146	164	310
Northern Ireland	171	187	358

3.3.3 Non-domestic (Non-household) Customers

Non-domestic

Description of Charge	Full Charge	2008/09 Charge
<u>Unmeasured water tariff</u>		
Standing charge (£)	£51.76	£25.88
Variable charge (£/£000 nett annual value)	£17.64	£8.8189
Charge cap (standing charge + variable charge) (£)	£790	£395
Unmeasured animal drinking trough system (£)	£214	£107
<u>Unmeasured sewerage tariff</u>		
Standing charge (£)	£56.40	£28.20
Variable charge (£/£000 nett annual value)	£18.97	£9.4867
Charge cap (standing charge + variable charge) (£)	£790	£395
<u>Measured water tariff</u>		
Standing charge (£):		
Water supply pipe size up to 20mm	£63	£63
Over 20mm up to 25mm	£105	£105
Over 25mm up to 40mm	£194	£194
Over 40mm up to 50mm	£313	£313
Over 50mm up to 75mm	£620	£620
Over 75mm up to 100mm	£1,120	£1,120
Over 100mm	£1,600	£1,600
Volumetric charge (£/m ³)	0.9553	0.9553
NB: The tariff for new customers who fall into the category set out in paragraph 5.4 will be one half of the above amounts		
Large user volumetric charge (100,000 – 250,000m ³)	0.7642	0.7642
Large user volumetric charge (250,000 – 500,000m ³)	0.7165	0.7165
Large user volumetric charge (Over 500,000m ³)	0.6687	0.6687
Building water volumetric charge (£/m ³)	0.9553	0.9553
Domestic allowance (m ³ per annum)	200	200

3.3.2 Non-domestic (Non-household) Customers

Non-domestic (cont'd)

Description of Charge	Full Charge	2008/09 Charge
<u>Measured sewerage tariff</u>		
Standing charge (£):		
Water supply pipe size up to 20mm	£63	£31.50
Over 20mm up to 25mm	£105	£52.50
Over 25mm up to 40mm	£194	£97.00
Over 40mm up to 50mm	£313	£156.50
Over 50mm up to 75mm	£620	£310.00
Over 75mm up to 100mm	£1,120	£560.00
Over 100mm	£1,600	£800.00
Volumetric charge (£/m ³)	1.337	0.6684
<u>Assessed water tariff</u>		
Standing Charge (£)	£63	£31.50
Assessed charge – based on loading units (section 13.20)	Loading Units	Loading units
<u>Assessed sewerage tariff</u>		
Standing charge (£)	£63	£31.50
Assessed charge – based on loading units (section 13.20)	Loading Units	Loading units
<u>Trade effluent tariff (see section 12.)</u>		
(R) Reception charge (£/m ³)	0.1714	0.1714
(V) Volumetric charge (£/m ³)	0.1910	0.1910
(B) Biological charge (£/m ³)	0.1256	0.1256
(S) Sludge charge (£/m ³)	0.1515	0.1515
Standard strength combined charge (£/m ³)	0.6395	0.6395
Standard strength COD (mg/l)	422	422
Standard strength suspended solids (mg/l)	332	332

3.3.3 Non-domestic (Non-household) Customers

Historically DRD Water Service / Northern Ireland Water had a significant number of non-domestic metered water and trade effluent customers for which charges were and continue to be levied.

This year (2008-09) an increasing number of non-domestic customers, will have been metered and will pay according to the amount of water used. The remainder of non-domestic customers will pay according to the net annual valuation (NAV) of the business premises and the amount of water they are expected to use. For the purposes of determining the revenue to be raised from non-domestic un-measured customers, NI Water assumes an average consumption per property per day and an average discharge of wastewater per property per day. This average amount is checked and verified by the Reporter and also compared with figures for Scotland, England and Wales. Consequently, when a business is metered it may find that its bill may be higher or lower than the previous un-measured bill. This will depend upon the amount of water actually consumed compared with the average consumption and the property's NAV compared with the average NAV.

However approximately 75% of NI Waters business customers are now metered, and all of NI Water 'larger use' customers (i.e. over 100,000m³ per annum) are already metered.

All non-domestic customers will be billed sewerage charges for the collection, treatment and disposal of wastewater (sewage). For 2008-09, sewerage charges are levied at 50% of the total charge, the remainder being paid by DRD on behalf of those customers. For next year, 2009-10, non-domestic customers will be charged in full for both water and sewerage services, unless there is specific instruction from the Executive to the contrary.

Compared with charges set by DRD for 2007-08, non-domestic metered water has increased by 8%. There has been however, below inflation increases in some metered water standing charges, although this does not affect the total revenue to be raised from this customer group. There were no non-domestic sewerage charges in 2007-08.

3.3.4 Road Drainage and Surface Water Charges

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. The cost of providing these facilities is, in Great Britain, paid for by sewerage customers. This is because 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 customers.

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 wastewater produced.

3.3.5 Assessed Charges

Where a customer is entitled to a meter (non-domestic customers at present) and one cannot be fitted for technical reasons (the water supply is provided through another business premises), then the company will offer an alternative assessed charge. This charge is based upon the number of 'loading units' within the premises. This is essentially a calculation based upon the number of sinks, toilets, showers and other water fixtures which consume water or produce a wastewater.

3.3.6 Trade Effluent Charges

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.

We note that there has been a significant increase in trade effluent charges over and above the rate of inflation compared with 2007-8 when charges were set by DRD. This increase of around 14% reflects movement towards a more appropriate apportioning of costs attributable to the reception and treatment of trade effluent. In the Annual Information Return for 2007 (covering the un-regulated period, 2006-07 of DRD Water Service), it was noted by the Interim

Reporter that trade effluent charges were considered to be below that required to recover costs.

The Reporter made a number of recommendations in his report of February 2008 on trade effluent which may, subject to further review by the Utility Regulator, impact upon trade effluent charges. These recommendations included standard sewage strength calculations and trade effluent weighted average strengths. We will review trade effluent information in NI Water's Annual Information Return to us, and ascertain whether these recommendations have been implemented.

However, on current information we consider that the trade effluent tariffs are likely to be too low at present and thus not fully cost reflective. This view is based on the tariff differential checking methodologies employed by OFWAT, although in this case applied to domestic un-measured customers – see section 3.3.6.1 below.

We will carry out further work during 2008 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.

3.3.6.1 Trade Effluent tariff differential

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

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.

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 domestic un-metered sewerage and trade effluent customers can be determined as an equally viable alternative.

The company has determined the metered and un-metered implied volumetric sewerage charge as 133.68 p/m³, and our calculations using OFWAT's procedure show that the weighted trade effluent charge is around 70 p/m³. Subtracting the cost of surface water drainage imposed on customers, which equates to around 36 p/m³, customers are paying approximately 97 p/m³ for

sewerage. OFWAT would allow a differential between metered sewerage and trade effluent of $\pm 5 \text{ p/m}^3$. The differential determined here is around 27 p/m^3 .

This in effect represents a cross-subsidy between sewerage customers (metered, un-metered, domestic and non-domestic) and trade effluent customers. Whilst the impact on those non-domestic customers, who also discharge a trade effluent would be zero, the impact on domestic customers and non-domestic customers who do not discharge a trade effluent is material. We will discuss this issue with the company and expect that this cross-subsidy should be unwound over an agreed period. This will require an increase in trade effluent charges and a reduction in sewerage revenue to be raised from domestic and non-domestic customers.

3.3.7 Reasonable Cost Allowance

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.

3.3.8 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 2008-09 was set at £256 (£171 with 2/3 phasing) to be indexed subsequently each year in line with inflation.

3.3.9 Miscellaneous charges

NI Water include a number of non-standard charges within their approved charges scheme. 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
- standpipe hire

While we do not usually investigate these charges, we monitor them to make sure that they are broadly cost-reflective. We challenged some of NI Water standard and miscellaneous charges for 2008-09 to ensure that they were cost reflective. This is shown in Table 3.

Table 3: NI Water standard and miscellaneous charges

Standard Charges

NIW proposed charge	NIAUR response	NIW Final Scheme of Charges	% increase on 07/08 charge
Infrastructure Charge £258	Not in line with DRD minister guidance of 2.5% increase. Not Accepted. Charge should be £256	£256 i.e. £171 for 08/09	2.5% 1/3 charge 07/08 and 2/3 08/09
Meter testing £125	<p>NIAUR concerned about rise in charge. NIAUR asked NI Water to supply tender document covering charge and confirmation of number of occasions charge implemented in 07/08. NI Water tender document showed a tender charge of between £122.6 to £126 depending on pipe diameter.</p> <p>No meter tests were carried out in 07/08. Charge accepted by NIAUR as charge is in line with / or below similar charges in GB and the customer is only charged where meter is shown to be working correctly.</p>	£125	86.6%
Reconnection charge (metered supply) £130	Accepted	£130	3.1%
Sewerage inspection fee £103	Accepted	£103	3.0%

NIW proposed charge	NIAUR response	NIW Final Scheme of Charges	% increase on 07/08 charge
Service connection charges			Full charge 07/08 and 08/09
Water up to 25mm - £196	Accepted	£196	3.2%
Sewerage up to 100mm - £103	Accepted	£103	3%
Tankered Waste Disposal Charge			Each domestic customer will be entitled to one free tank service in the 2008-09 year. 1/3 charge 07/08 and 2/3 08/09 except aborted visit charge due to erroneous customer information (full charge 07/08 and 08/09)
Septic tank desludge - £43.3	Accepted	£43.3	0%
Package Plant Desuldge - £47.64	Accepted	£47.64	0%
Difficult to access septic tank- £47.64	Accepted	£47.64	0%
Fast response desludge - £70.98	Accepted	£70.98	0%
Full tanker desludge - £84.8	Accepted	£84.8	0%
aborted visit charge due to erroneous customer information - £23.5	Accepted	£23.5	8.5%
Requisitions – reasonable cost allowance			
New property – water £2230	Accepted	£2230	-10%
New property – sewerage £2356	Accepted	£2356	5.88%
Existing property – water £6500	Accepted	£6500	0%

Existing property – sewerage £4000	Accepted	£4000	0%
NIW proposed charge	NIAUR response	NIW Final Scheme of Charges	% increase on 07/08 charge
Other Standard Charges			
Map information – routine (search fees)			
Per paper copy for water and sewer details £29	Accepted	£29	3.3%
Per paper copy for water / sewer individually £20.5	Accepted	£20.5	2.5%
Each additional paper copy £3.5	Accepted	£3.5	2.9%
Map information – non routine (search fees)			
Per site visit £119.15	Accepted	£119.15	0%
Per paper copy for water / sewer individually £20.5	Accepted	£20.5	-2.9%
Each additional paper copy £3.5	Accepted	£3.5	2.9%
Other information (photocopying)			
Black and white A4 £0.1	Accepted	£0.1	0%
Black and white A3 £0.2	Accepted	£0.2	0%
Colour A3 or A4 £0.5	Accepted	£0.5	0%
> 40 sheets provided (£ per hr or part hr) min £5) £26	Accepted	£26	4%
FOI limit £450 – charge at £26 per hr above limit. 4% increase on 07/08 charge	Accepted	£450	-25%

Miscellaneous Charges

NIW proposed charge	NIAUR response	Final Scheme of Charges	% increase on 07/08 charge
Sewers for adoption (article 161)			1/3 charge 07/08 and 2/3 08/09
Application fee £167	Accepted	£167	0%
Resubmission £75	Accepted. Charge in line with G.B.	£75	Charge not shown for 07/08
Inspection / adoption fee – 1.66% of a minimum of £670	Accepted	1.66% of a minimum of £670	0%
Bond surety – gravity sewer – 40% of minimum £2000	Accepted	40% of minimum £2000	0%
Bond surety – pumping station or mains – 50% of a minimum of £5000	Accepted	50% of a minimum of £5000	0%
Legal / administration fee - £220	Accepted		0%
Sewers for adoption (article 159)			1/3 charge 07/08 and 2/3 08/09
Application fee £167	Accepted	£167	0%
Inspection / adoption fee (including CCTV) £670	Accepted	£670	0%
Legal fee (min) £100	Accepted	£100	0%
Building over or near a sewer			1/3 charge 07/08 and 2/3 08/09
Sewers < 300mm - £170	Accepted	£170	1.2%
Sewers > 300mm - £235	Accepted	£235	0%
Inspection and routine sign – off - £235	Accepted	£235	0%
Inspection and sign off (re-alignment) - £350	Not Accepted. New charge did not reflect 1/3 then 2/3 charge. Charge to be fixed at £305	£305	1.7%

Diversion of a Watermain

NIW proposed charge	NIAUR response	Final Scheme of Charges	% increase on 07/08 charge
Pre-development enquiry £100	Not accepted. Increase in charge to be less than inflation	£77	2.5%
Network capacity check £75	Not accepted. Increase in charge to be less than inflation	£51	2.0%
Developer encroachment / odour assessment (application fee) £135	Accepted	£135	0% 1/3 charge 07/08 and 2/3 08/09

4. CONCLUSION

4.0 NI Water 2008 – 09 Scheme of Charges

The Utility Regulator received NI Water's final (draft) Scheme of Charges for 2008 – 09 on the 18th March 2008. The Utility Regulator identified the following issues with the NI Water final (draft) Scheme of Charges.

(a) Trade Effluent Charges; We consider that, although trade effluent prices have been increased by an average of 14% from 2007- 08, the charges remain lower than they should be. Other customers may therefore be subsidising this customer group. We will engage on this issue with the company, confirm whether charges are fully cost reflective or not, and agree, with Ministerial guidance where necessary, an appropriate solution.

(b) Our investigation into 'The Release by Northern Ireland Water Limited of Information Relating to its Costs and Tariffs' concluded that NI Water had provided conflicting information to the Utility Regulator in relation to the closure of major commercial businesses in 2008-09.

As a result of this investigation the Utility Regulator required commitments from NI Water including;

- full and comprehensive engagement with the Utility Regulator in order to address outstanding areas of concern, including the treatment of the closure of major commercial businesses in 2008-09.

The Utility Regulators' investigation report 'The Release by Northern Ireland Water Limited of Information Relating to its Costs and Tariffs' is available on its website:

[http://www.niaur.gov.uk/pdf%20files/Water%202008/Water%20Investigation%20Report%2020708%20\(2\).pdf](http://www.niaur.gov.uk/pdf%20files/Water%202008/Water%20Investigation%20Report%2020708%20(2).pdf)

The Utility Regulator will therefore engage with NI Water to agree an appropriate solution to phasing the effect (if appropriate) of the closure of major commercial businesses in 2008-09.

With the exception of these issues, we believe that charges have been apportioned correctly and are therefore broadly cost reflective.

In addition the Utility Regulator identified some minor anomalies in the NI Water final (draft) Scheme of Charges for 2008 – 09 as shown in Table 3. NI Water subsequently corrected these anomalies.

The Utility Regulator approved the NI Water Scheme of Charges for 2008-09 on the 21st March 2008.

4.1 Process for approval of NI Water 2009 – 10 Scheme of Charges

We have reviewed the submission timelines for 2008-09 which lead up to the Utility Regulators' approval of NI Water 2008 - 09 Scheme of Charges.

Whilst several factors impacted upon revenue assumptions relevant to the NI Water Scheme of Charges for 2008 – 09 e.g. IWRP recommendations, re-apportionment of costs, we are of the view that NI Water can submit its draft Scheme of Charges at an earlier stage in the process, to the Utility Regulator. With this in mind we have issued NIW with submission timelines for the 2009 -10 Scheme of Charges. This is detailed in our letter **WR 4: NIW Scheme of Charges – Submission Timelines and Requirements**. A summary of the submission timelines is provided below.

- 1 October 2008 – NIW submits draft charges scheme, draft (I)PS and draft tariff model to include details of any special agreements.²
- Ongoing October 2008 to January 2009 as necessary – meetings/correspondence with NIW and CCNI to resolve any outstanding issues.
- 1 November 2008 – CCNI to provide comments to NIAUR on draft charges schemes.
- 8 December 2008 – NIAUR issues formal feedback letter on draft submission.
- 7 January 2009 – NIW submit final version of the charges scheme and all the sections of the (Interim) principal statement and tariff model.
- 27 February 2009 – NIAUR issues letter approving NIW charges scheme

The full submission timelines and requirements are on the Utility Regulator website:

http://ofreg.nics.gov.uk/pdf%20files/Water%202008/WR4_2008-06-11_Scheme%20of%20Charges.pdf

We have advised both NI Water and the Consumer Council of this annual submission timeline and requirements.

² Special Agreements means any charges not shown within the Scheme of Charges Publication.