

DEPARTMENT FOR REGIONAL DEVELOPMENT ('THE DEPARTMENT')
AND
NORTHERN IRELAND AUTHORITY FOR UTILITY REGULATION ('THE REGULATOR')

DETERMINATION ON RELEVANT ITEMS 2012/13

Pursuant to NIW's relevant items bid letter of 13th February 2012, the Department (DRD) and the Utility Regulator (UR) have jointly given consideration to the relevant items bid, in accordance with the Memorandum of Understanding and Instrument of Appointment.

They have jointly decided the following:

Relevant item	Note	NIW Bid	Joint Decision*
		£m	£m
Income reduction	1	7.2	7.2
Increase in costs	2	2.0	2.0
Provisions	3	13.3	10.7
IFRS adjustment	4	1.0	1.0
Total		23.5	20.9

*Approval is subject to approved relevant items being ring fenced. DRD Shareholder Unit will also review the use of relevant items at each public expenditure monitoring round and advise the UR of the outcome.

NIW Income reduction (Note 1)

The Department and Regulator considered applying a partial release, as decided in the determination on relevant items in 2011/12. However, the introduction of ring fencing arrangements was viewed as providing a similar level of protection to consumers and therefore release of the full amount has been allowed.

Increase in costs (Note 2)

The Department and Regulator agreed that the additional £2.0m relating to Carbon Reduction Commitment could be substantiated in full due to a change in the scheme rules since the Final Determination.

Provisions (Note 3)

The Department and Regulator agreed that changes in public expenditure (PE) accounting guidelines are outside the reasonable control of the company. Due to changes in accounting rules, provisions must be accounted for when the cash is actually paid and not when the provision is made. This means that provisions created before the PE changes in accounting for provisions are a "double hit". Therefore the Department and the Regulator agree that £10.7m (the total of "double hit" provisions) should be allowed. The management of provisions other than "double hit" provisions is considered to be part of general financial management and, at this point, the Regulator and the Department are not convinced the remaining £2.6m provisions form a special case.

IFRS Adjustment (Note 4)

The Department and Regulator noted that much of the uncertainty to the scale of the adjustment had been resolved during 2011/12 and that £1m could be substantiated.

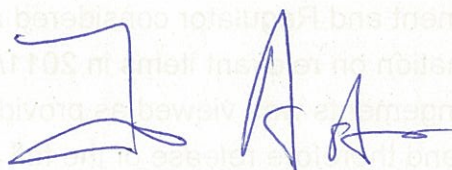
Our joint determination is therefore that £20.9m of relevant item funding is to be released to NIW. This is subject to approved relevant items being ring fenced. DRD Shareholder Unit will also review the use of relevant items at each public expenditure monitoring round and advise the UR of the outcome.

The Regulator has also determined that there is no impact on the K factor and therefore on charges to customers arising from this revised budget position.

The Department and the Regulator have therefore agreed that the current NIW Resource DEL PE position should be £169.1million for 2012/13. This represents the PC10 Final Determination plus approved relevant items in this determination. It also takes into account the payment of the road drainage charge by DRD Roads Service.



Director of Water Policy - DRD



Director of Water Regulation – NIAUR

27/03/12

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