

PC15 Information Requirements

General Guidance

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General Guidance

Section 1 – Introduction

This document, and supporting documents, set out the Utility Regulator’s information requirements for the PC15 Price Control which covers the period 2015-21.

At the PC15 Price Control we will set price limits for a six-year period. We will do so in a way that ensures that the company’s operational and investment costs can be met and ministerial objectives delivered effectively and efficiently, providing best value for money to consumers. These requirements ask NI Water to submit the information we need to set price limits including strategies, assumptions, justification and supporting information for costs, expenditure and outputs.

The information requirements do not constrain the development of the company’s Business Plan. It is for the company to develop its plan to provide an efficient and effective service which will meet the needs of its consumers, and to then communicate this to the Utility Regulator. While the company should provide the information set out in these requirements as a minimum, the company is free to provide further information as it believes necessary to properly describe and justify its plans.

For the previous Price Control, PC13, we took steps to simplify the business plan information requirements. Our aim was to reduce the regulatory burden on the company, align with established local practice and improve communication between stakeholders. We have continued to use and build on the information requirements developed for PC13, maintaining the benefits of continuity, simplicity and familiarity. In line with this approach, the information requirements are structured round five key areas:

Chapter 1	Company Strategy
Chapter 2	Operational Costs and Efficiency
Chapter 3	Capital Investment
Chapter 4	Outputs
Chapter 5	Financial Model and Financial Tables

Each chapter of the guidance sets out the information which the company should include in its business plan submission. Detailed line guidance is provided for the information tables relevant to each chapter and the information tables are provided in a separate ‘excel’ workbook. Further specific requirements are included in the following Appendices:

- Appendix A Capital Maintenance Econometric Return
- Appendix B Cost Base

A schedule of the documents comprising the PC15 Information Requirements is included at the end of this General Guidance.

Section 2 – Summary of Key Changes from PC13

While we have continued to use and build on the information requirements we developed for PC13, we have made a number of key changes which we signalled in our approach to PC15 or our subsequent asset maintenance approach. These key changes are outlined below:

- **Chapter 1 – Company Strategy** - has been added to:-
 - Allow the company to set out its vision for the long-term development and delivery of services and describe how its PC15 business plan delivers and further informs future sustainability issues for the industry.
- **Chapter 2 – Operational Costs and Efficiency** –
 - We have developed our approach to operational and capital efficiencies, informed by discussions with NI Water. At the same time we issued these information requirements we also issued a ‘minded to’ approach on opex and capex efficiencies along with our response to various company requests for clarification.
 - We have re-stated our PC10 guidance on the Special Factors and Atypical Expenditures process which will apply to PC15, including a “comprehensiveness test” of the company’s draft claims no later than February 2014.
- **Chapter 3 – Capital Investment** - has been amended to:-
 - Ask the company to set out its asset maintenance plan.
 - Set out information requirements for an initial capital submission in June 2013.
 - Ask the company to address the programme issues associated with sustainable development and set out a clear programme of studies and trial projects necessary to develop and support the implementation of sustainable approaches.
 - Ask the company to provide an estimate in respect of long-term Regulated Asset Expenditure in line with its strategy.
- **Chapter 4 – Outputs** - has been amended to:-
 - Ask the company to set out how its business plan has addressed the views expressed by consumers through the PC15 consumer engagement process and other channels.
 - Allow the company to propose additional service measures which better reflect the qualities of service which consumers’ value and which are relevant to their needs.
 - Include an update on serviceability data to include estimated values for 2013-14.
 - Ask the company to set out how the outputs and milestones for PC15 align with the developing Long Term Water Strategy and the Social & Environmental Guidance.

- **Chapter 5 – Financial Model and Financial Tables** - have been amended to:-
 - Better define the Reporter’s oversight role regarding the calculation of future PPP unitary charges, so that price escalation mechanisms and fixed cost elements within the PPP contracts have been properly taken account of.
 - Include tariff differential checks so that any rebalancing of tariffs can be considered over the PC15 period.
- **Appendix A – Capital Maintenance Econometric Return** - has been added to facilitate our triangulated approach to determining base maintenance.
- **Appendix B – Cost Base** – has been added to inform our targets for capital efficiency.

In our PC15 Approach, we noted that we are considering key policy issues which have an impact on the financial model. For example, the potential for tax payments and the benefits of moving from a price cap to a revenue cap. If changes prove necessary we will reissue the financial model at a later date and we will discuss the programme for doing so with the company.

Section 3 – Timeline

We set out our timeline for PC15 in our PC15 Approach document. Table 1 updates the key dates for submissions, engagement and our determination from the issue of these information requirements.

Table 1 – PC15 submission timeline

Date	NI Water	Utility Regulator
15 th May 2013		PC15 Information Requirements published.
15 th May 2013		Publication of UR Approach to Opex and Capex efficiencies.
28 th Jun 2013	Submission of an outline view of the Capex programme.	
31 st Oct 2013	Submission of draft efficiency and cost data for CMER	
8 th Nov 2013	Submission of final Cost Base (v1.0)	
29 th Nov 2013		Initial feedback on the draft efficiency and cost data, including CMER and Cost Base.
20 th Dec 2013	Submission of draft special factor and atypical expenditures claim*	

Date	NI Water	Utility Regulator
6 th Jan 2014	Submission of draft asset maintenance capability assessment*.	
14 th Feb 2014		Latest date for initial feedback on draft special factor and atypical expenditures claims.
24 th Mar 2014	Submission of the PC15 Business Plan and final Cost Base (v2.0)	
	Clarification and query process between the company and the Utility Regulator on business plan submission.	
10 th July 2014		Publication of the PC15 Draft Determination for consultation.
	Consultation on the Draft Determination	
15 th Oct 2014	Draft Determination consultation period ends.	
10 th Dec 2014		Publication of the PC15 Final Determination.
10 th Feb 2015	Acceptance/rejection of Final Determination.	
1 st Apr 2015	Publication of PC15 Monitoring Plan	
1 st Apr 2015	1st Annual Scheme of Charges for PC15 period comes into effect	
* NI Water may, if it so chooses, agree an earlier submission date for these workstreams, especially if this facilitates a better understanding of the company's position and deeper analyses of the issues and assumptions involved.		

Section 4 – Business Plan Submission Requirements

NI Water is required to submit its Business Plan in the following format:

- Four hard copies of the PC15 Business Plan submission (this includes chapter write-up and completed tables);
- One electronic version of the Business Plan submission; and
- An electronic excel version of the completed tables and financial model.

The Business Plan should be submitted to the Utility Regulator's office no later than **5pm on Monday the 24th March 2014**.

The Business Plan should be submitted under cover of a letter from the Chief Executive confirming that the NI Water Board has reviewed and approved the Business Plan.

We expect NI Water to publish on its website a public facing summary document, forecasting the likely impacts on prices and subsidy from the planned levels of consumer services for the PC15 period. This could take the format of a Financial Picture and a Monitoring Plan table, but it is for the company to decide the best means of communicating its plans to consumers.

Section 5 – Outline or draft submissions

The company is required to make the following outline or draft submissions:

Table 2 – PC15 outline or draft submission timeline

Date	NI Water
28 th Jun 2013	Submission of an outline view of the Capex programme.
31 st Oct 2013	Submission of CMER.
8 th Nov 2013	Submission of final Cost Base (v1.0)
20 th Dec 2013	Latest date for submission of draft special factor claim and atypical expenditures claims.
6 th Jan 2014	Submission of draft asset maintenance capability assessment.

NI Water is required to submit each of these outline or draft submissions in the following format:

- One hard copy of the submission including commentary and completed tables;
- One electronic version of the submission; and
- An electronic excel version of the submission tables.

Each outline or draft submission should be submitted to the Utility Regulator's office no later than **5pm on the required date**.

Each outline or draft submission should be submitted under cover of a letter from the Chief Executive.

Section 6 – Reporters Report

This document includes the guidance for the Reporter to allow completion of his audit plans. The scope and content of the Reporter's audit is detailed for each of the respective tables and chapters throughout the guidance.

Before preparing an audit plan for any part of the Business Plan, the Reporter should assess the quality of the information available and assess the material issues and level of

testing which will be necessary to challenge the company's plans and output and expenditure projections. The Reporter should then advise the Utility Regulator on the scope and timing of the audit taking account of the information available.

The Utility Regulator will continue to engage with NI Water on the timing and scope of the Reporter's audits. The timing and scope of audits and the timing of the Reporter's report will be considered as the Business Plan develops and the Reporter prepares and submits his audit plans.

Section 7 – General Instructions

The Department for Regional Development has provided an initial draft of Social and Environmental Guidance for Water and Sewerage Services which sets out planning assumptions for PC15. The Utility Regulator shall, in exercising and performing the functions mentioned in Article 6(1) (subject to Article 6(6)) of The Water and Sewerage Services (Northern Ireland) Order 2006, have regard to this guidance and subsequent updates issued by the department. In preparing its Business Plan, the company should have regard to the guidance and any subsequent updates. Chapter 4 of the information requirements asks that the company demonstrates how its Business Plan addresses the Draft PC15 Investment Priorities which form an annex to the guidance.

The price base for the business plan submission is 2012-13. Where figures are asked for in real terms, they should be completed in 2012-13 prices. Chapter write-ups should always evidence the price base (either real or nominal) in which supporting financial information is given. Where nominal figures are used, the company should confirm that inflationary indices (RPI and COPI) are the same as those detailed in the Business Plan tables.

Section 8 – Confidence Grades

Confidence grades are required in the following parts of the Business Plan:

- The Capital maintenance econometric return (CMER – Appendix A);
- The Cost Base (Appendix B).

The narrative below relates solely to the CMER. Section 2 of the Cost Base Company Guidance (Appendix B) details how the confidence grades for Cost Base are calculated.

Confidence grades provide a reasoned basis for NI Water to qualify the reliability and accuracy of the data. NI Water should employ a quality-assured approach in the methodology used to assign confidence grades, particularly if sampling techniques are in place.

The confidence grade combines elements of reliability and accuracy, for example:

A2 Data based on sound records etc. (A, highly reliable) and estimated to be within +/- 5% (accuracy band 2).

Reliability and accuracy bands are shown in the tables below.

Table 3 – Reliability bands

Reliability band	Description
A	Sound textual records, procedures, investigations or analysis properly documented and recognised as the best method of assessment.
B	As A, but with minor shortcomings. Examples include old assessment, some missing documentation, some reliance on unconfirmed reports, some use of extrapolation.
C	Extrapolation from limited sample for which Grade A or B data is available.
D	Unconfirmed verbal reports, cursory inspections or analysis.

Table 4 – Accuracy bands

Accuracy band	Accuracy to or within +/-	But outside +/-
1	1%	-
2	5%	1%
3	10%	5%
4	25%	10%
5	50%	25%
6	100%	50%
X	Accuracy outside +/- 100 %, small numbers or otherwise incompatible (see table below)	

Certain reliability and accuracy band combinations are considered to be incompatible and these are blocked out in the table overleaf.

Table 5 – Compatible confidence grades

Accuracy band	Reliability band			
	A	B	C	D
1	A1			
2	A2	B2	C2	
3	A3	B3	C3	D3
4	A4	B4	C4	D4
5			C5	D5
6				D6
X	AX	BX	CX	DX

Where NI Water's confidence grades are below A2, A3 or B2, NI Water should comment on the reasons for this and identify any plans it has in place to improve the quality of the information.

The Reporter should comment on all confidence grades reported in the tables. They are required to state whether they agree with the confidence grading and if not, provide their opinion. Where there is disagreement between the parties, the Utility Regulator will normally use the Reporter's assessment of the confidence grade.

Section 9 – Schedule of Documents

The PC15 Information Requirements consist of the following, including this General Guidance:

Table 6 – Schedule of Information Requirement Documents

Document title
General Guidance
Chapter 1 – Company Strategy
Chapter 2 – Operational Costs and Efficiency
Annex 2A – Operational Costs and Efficiency - Definitions
Chapter 3 – Capital Investment
Annex 3A – Capital Investment – Definitions
Annex 3B – Asset Maintenance
Chapter 4 – Outputs
Annex 4A – Outputs - Definitions
Chapter 5 – Financial Model and Financial Tables
Annex 5A – Financial Model and Financial Tables – Definitions
PC15 Business Plan Tables (excel s'sheet)
PC15 Financial Model Tables (excel s'sheet)
Appendix A1 – PC15 CMER – General Guidance
Appendix A2 - PC15 CMER – Tables (excel s'sheet)
Appendix A3 – PC15 CMER – Definitions
Appendix B1 – PC15 Cost Base – General Guidance
Appendix B2 – PC15 Cost Base –Company Guidance
Appendix B3 – PC15 Cost Base – Reporter Guidance
Appendix B4 – PC15 Cost Base – Main Tables (excel s'sheet)
Appendix B5 – PC15 Cost Base – Supporting Tables (excel s'sheet)
Appendix B6 – PC15 Cost Base – Definitions (excel s'sheet)