

24th May 2010

To Chief Executive of NIW

WR 13: Serviceability

Review of Serviceability Indicators for use in Future Price Controls

The purpose of this letter is to advise NI Water of the Utility Regulator's intention to commence a review of the serviceability indicators to be used to assess NI Water performance for future price controls. This reflects a commitment given by the Utility Regulator in the PC10 Final Determination.

1. Background

In the PC10 Final Determination the Utility Regulator indicated that during PC10, NI Water would be expected to maintain stable serviceability in all asset areas and that serviceability would be assessed using a similar methodology to that used by Ofwat.

The Utility Regulator however also indicated that because serviceability is a relative measure, there isn't the need to use the same serviceability indicators as other companies or regulators and highlighted the opportunities afforded by one-to-one regulation for amendment of the indicators to, for example:

- take account of levels of service which are identified by consumers as important to them; or,
- reflect sub-threshold indicators of service levels which the company uses and has developed as part of its asset management systems.

The Final Determination indicated that the Utility Regulator intended to work with NI Water over PC10 to consider alternative indicators and to develop appropriate measures which could be carried forward into future price controls. The UR now proposes to commence this review.

2. Approach

The primary objective of this review is to identify indicators that are appropriate for assessing asset serviceability and establishing robust serviceability targets for the future.

In delivering this objective there is an opportunity to align serviceability indicators with measures used by NI Water in its asset management systems and its processes for assessing investment needs. The Utility Regulator would therefore seek to engage with NI Water in undertaking this review and sees this engagement as an important means of ensuring that the most appropriate and meaningful indicators are identified for adoption moving forward.

The proposed approach involves an initial phase of dialogue with NI Water. The outputs from this dialogue will then be used by the Utility Regulator to develop final proposals for future serviceability monitoring. These proposals will be developed into reporting requirements for PC10 which NI Water will be asked to adopt in preparation for subsequent price controls.

3. Indicative Programme

Serviceability assessments require reliable data which has been collected over the medium to long term using a consistent methodology. To allow robust targets to be set for future price controls, appropriate systems and processes for collating and reporting information will need to be implemented by NI Water during PC10. It is therefore important that suitable indicators are identified as quickly as possible to allow this to happen. The following indicative programme reflects this need:

- Consultation with NI Water on potential indicators – June/July 2010.
- Development of and communication of final proposals for indicators – July/August 2010.
- Development and issue of associated Reporting Requirements and information request – August 2010.

A detailed programme will be developed based on this indicative framework. This will be shared with company as part of ongoing discussions in due course.

4. Way Forward

This work programme will be led by the Network Regulation team within the Utility Regulator who will contact your Regulation team shortly to arrange an initial meeting to discuss this issue.

In the meantime, if you have any concerns or queries in relation to this matter please contact Paul Stewart by e-mail at paul.stewart@uregni.gov.uk or by telephone on 02890 316337.

Yours sincerely

J Aston
Director of Water