

3rd August 2010

To Chief Executive of NIW

WR 14: NIW Scheme of Charges – 2011-12 – Submission Timelines and Requirements

- 13 August 2010: NI Water advises CCNI and UR of any proposed changes in policy relevant to the 2011-12 Scheme of Charges.
- 27 September 2010: NIW submits draft charges scheme, draft Principal Statement and draft tariff model to include details of any special agreements.¹
- Ongoing September 2010 to January 2011 as necessary – meetings/correspondence with NIW and CCNI to resolve any outstanding issues.
- 15 October 2010: CCNI to provide comments to NIAUR on proposed changes in policy relevant to the 2011-12 Scheme of Charges.
- 29 October 2010: NIAUR responds to proposed changes in policy relevant to the 2011-12 Scheme of Charges.
- 15 November 2010: CCNI to provide comments to NIAUR on draft charges schemes.
- 13 December 2010: NIAUR issues formal feedback letter on draft submission.
- 28 January 2011: NIW submit final version of the charges scheme and all the sections of the principal statement and tariff model.
- 28 February 2011: NIAUR issues letter approving NIW charges scheme.

All submissions (draft and final) to the Utility Regulator must highlight any changes to the previous year charging scheme. The final Scheme of Charges must highlight changes (in tracked changes) from the draft scheme of charges.

Criteria for approval

NIAUR will use the following criteria for considering the 2011/12 Scheme of Charges

Completeness: for approval, the Charges Scheme must satisfy fully all the submission requirements below. In the event that this is not met, NIAUR will not approve the Charges Scheme proposed by NIW.

Good Information: a charges scheme must have, as its basis, reliable information. This requires that the submission must be consistent both internally and externally, and consistent with other submissions made to NIAUR including any relevant externally identified sources of information.

Consistency with Ministerial Guidance: NIW must submit charges that are consistent with any Ministerial guidance on charging. Where ministerial guidance is absent, as might be the case for the submission of draft Scheme of Charges, submission assumptions must be clearly stated.

¹ Special Agreements means any charges not shown within the Scheme of Charges Publication.

Justified re-balancing: Where NIW intends to change the balance of charges it must provide justification (with reference to the costs of supplying particular groups of customers) for doing so.

Considered incidence effects of justified re-balancing: The Charges Scheme submission should clearly identify the average impact of NIW's proposals and also any deviation from this average. The impact considered should be both the expected change in domestic customers' bills (where relevant) and the impact on the non-domestic group.

Submission requirements

The submission should comprise four separate documents, plus any additional reports or background material required to substantiate information within the submission, e.g. tariff models. NIAUR may request copies of any reports referred to within the submission. Please note, this format does not pre-empt the structure and layout of the final Charges Scheme document, which is a decision for NIW.

The four required documents are:

1. A combined tariff model showing all domestic and non – domestic charges.
2. A Principal Statement which fully meets the requirements of the licence.
3. A Charges Scheme document that explains each charge that NIW will levy on domestic and non – domestic customers.
4. A Commentary document that provides evidence that the criteria for any re-balancing (as outlined on previous page) have been satisfied.

These are now described in turn.

1. Combined Tariff Model

The combined tariff model must contain tariffs for both domestic and non – domestic customers.

Three separate inputs are required:

- actual tariff multiplier values for the reference year (2009-10);
- tariffs for the setting year (2010-11);
- proposed tariffs for the charging year (2011-12);

The model must also clearly indicate the revenue raised from non-domestic large users (water, sewerage and trade effluent) and NI Water must explain how the costs associated with discounts for large users are recovered.

2. A Principal Statement

The Principal Statement must comply fully with Condition B of the licence. Specifically the Principal Statement must report revenue attributable to large users separately. This will assist in ensuring compliance with licence Condition B 2 Excluded charges (7A).

3. NIW Charges Scheme document

This document should:

- describe the charges contained in the combined tariff model;
- describe and explain secondary services and the charges that will apply; and
- explain any other factors that NIW feels are material.

All customers charged directly by NIW will be charged in accordance with this Scheme. It is therefore imperative that the Charges Scheme document identifies all charges that NIW wishes to levy on its customers.

Any changes to the previous year's document should be highlighted in track changes.

4. Commentary document

The commentary document must show the impact of proposed tariffs (before and after any rebalancing) on the following notional customers.

- a. Average (notional) domestic bill
- b. Notional unmetered business with a NAV of £8000
- c. Notional small metered business with an annual usage of 285m³
- d. Notional large metered business with an annual usage of 1306m³

The notional bills should be shown in the form of tables similar to those shown by the Utility Regulator in its Report on NI Water's Scheme of Charges for 2009-10 and 2010-11.

The commentary document must explain how NIW has constructed tariffs that are consistent with the above stated criteria for approval. In particular, it should explain any re-balancing of tariffs with reference to costs of supply and also the incidence effects on identifiable customer groups. Additional explanation is required for assumptions underpinning the reported drainage and total sewerage data; and the allocation of costs and depreciation to the Mogden RVBS calculations. Specifically NI Water must explain its approach in respect of standard sewage strengths, standard trade effluent strengths and apportionment of costs.

In relation to the existing trade effluent tariff differential you will be aware from our approval of the 2010-11 Scheme of Charges we consider it appropriate for NI Water to use forecast treatment levels. The forecast should be based on treatment levels expected to be achieved at the middle of the charging year i.e. for 2011-12 the weights should reflect the expected situation at 1 October 2011).

The commentary document must explain the NI Water's policy regarding the definition of trade effluent customers, for example how discharges of largely domestic waste (e.g. from hospitals, nursing homes) are charged as well as an explanation of NI Water's policy on consenting, sampling and measurement of trade effluent volumes.

More generally the commentary document must explain any change of policy relevant to the draft 2011-12 Scheme of Charges and how the relevant change of policy is communicated to NI Water's customers via the Scheme of Charges document.

The document must also explain any assumptions used to populate the 2009-10 actual tariff multiplier information in the combined tariff model.

The document must include supporting information to verify that charges (including notional charges where applicable e.g. due to phasing and standard charges are cost reflective. The document must provide clear evidence that proposed regulated tariffs are within price limits determined in PC10.

Yours sincerely



Jo Aston
Director of Water