

9th June 2008

To Chief Executive of NIW

WR 3: Capital Maintenance Econometric Return (CMER)

This letter and assorted documentation sets out the Utility Regulator's requirements in respect of the above and our timeline to submission to inform the review of capital expenditure efficiencies to inform Minister around Sep-08 and facilitate our determination of PC10.

Our Approach

The purpose of the CMER is to facilitate the collection of explanatory data necessary to review, update and run our existing econometric models used for assessing the scope for capital maintenance efficiencies. Whilst Ofwat have decided not to take this work forward within their own PR09, we intend taking delivery of their latest CMER to enable our working up a new suite of econometric and weighted unit cost models which Ofwat would otherwise have undertaken.

Whilst following the Ofwat approach to the CMER our own documentation does not follow their own exactly. On comparison you will find we have simplified the return by "greying out" cells that we do not consider essential for NIW to complete. Detailed guidance on how to inform these cells remains given the fact that we may yet have recourse to some of these data series if we finalise upon model specifications dependent upon same. In the unlikely event of our requiring the submission of additional lines from the CMER we shall discuss the practicalities of so doing with NIW.

In discussion with the Reporter we are aware of a significant issue which may constrain your submission of as robust a CMER as you might have wanted ie whether 2002/03 data exists presently or requires estimation via backcasting or other means. Such difficulties for NIW are allowed for within our two week query process and on balance we remain committed towards the CMER and resultant relative efficiency modelling workstream.

Timeline

The timelines to facilitate PC10 and provide advice to Minister on scope for capital efficiencies for Sep-08 are similar to those previously communicated to NIW at our PC10 workshop:-

- NIAUR issue CMER – 9th Jun-08
- NIW report any queries on guidance to NIAUR (2 weeks) – 23rd Jun-08
- NIAUR provide response(s) to queries (4 working days) – 27th Jun-08
- NIW begin preparing CMER – 30th Jun-08
- NIW submit CMER 28th July-08.

If you have any questions please address these to Mr Caspar Swales, Head of Comparative Efficiency & Performance Branch. To help facilitate the outworking of this important efficiency workstream I should ask you to communicate the named NIW individual leading on your CMER workstream.

Yours sincerely

A handwritten signature in black ink, appearing to be 'J Aston', written over a faint horizontal line.

J Aston
Director of Water Regulation
NIAUR