PC15 Information Requirements
Appendix A1 – CMER General Guidance
Issued 15 May 2013 – Version 02

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Chapter 1 - Introduction

1.1. Content

1.1.1. The purpose of the capital maintenance econometric return (CMER) is to collect explanatory data necessary to review, update and run the econometric and unit cost models. These models are used to inform the company’s capital maintenance expenditure requirements and/or the relative capital maintenance efficiency position.

1.1.2. The content of the CMER consists of:

- A fully completed set of data tables 1 to 11.
- Explanatory variable data from the 2010-11 year.
- Capital maintenance expenditure data (in outturn prices) for the 2007-08 to 2012-13 years.
- Company commentary (where necessary) to explain any assumptions, new data or any changes to previously submitted data in the Annual Information Return.

1.2. Submission Requirements

1.2.1. The return and any accompanying commentary should be submitted on Thursday 31st October 2013. Special factors and atypical costs for capital maintenance can be submitted at the later date of Friday 20th December 2013, along with the draft opex special factors and atypicals.

1.2.2. The company should submit:

- 1 hard copy of the tables and commentary; and,
- 1 electronic copy of the tables and accompanying commentary.

1.3. Reporters Report

1.3.1. It is not anticipated that an audit from the Reporter will be required. As most of the data has already been collected and audited in historic Annual Returns, it is not considered necessary to look in detail at the data again.

1.3.2. However, the Regulator reserves the right to ask the Reporter to look at areas where a concern may exist. This could include:

a) Where previously unreported data is being provided.
b) Where the company has changed historic data from previous returns.

c) Where NI Water has made assumptions for explanatory variables which may be open to question.

d) Where there is a need to validate confidence grades.

e) Where material special factor assumptions have been made.

f) Where it may be necessary to validate atypical cost information.
Chapter 2 - Company Guidance

2.1. Company Guidance

2.1.1. The capital maintenance econometric return (CMER) is collected to inform the assessment of capital expenditure. In order to determine the predicted levels of efficient spend, the regulator collects information on explanatory variables to be used in econometric and unit cost models.

2.1.2. Explanatory variable data is taken from the 2010-11 year. The dependent variable cost data is calculated as an average of the following years (2007-2012). In previous price controls the tradition of Ofwat was to use prior independent variable data. The rationale for this approach is explained by Ofwat below.

“We have always ensured that the explanatory variables are clearly independent of decisions taken during the period of the modelled expenditure. To date, therefore, we have used data on cost drivers relating to a date prior to the period under consideration......Using explanatory variables from a year within the period for which expenditure is being modelled may be suitable in some cases, but not in others. There is a possibility that company decisions early in the period and consequently their efficiency would partly ‘explain’ the explanatory variables. The later the date of the explanatory variables the more of a concern this relationship may be.”

2.1.3. In light of a query raised by the company, the UR reviewed this practice. It is the Regulator’s opinion that most of the current explanatory variables cannot be influenced by maintenance spending decisions. Therefore it is considered agreeable to change the base year for explanatory data, particularly in light of NI Water’s issues with historic data.

2.1.4. Given that the restrictions on the independence of the data have been removed, the UR sees merit in using the most up-to-date explanatory information. For the E&W companies this would mean for the most part 2010-11 data. The UR therefore considers that 2010-11 should be used as the base year underpinning estimates of NI Water’s capital maintenance.

2.1.5. In the unlikely event of our requiring the submission of additional lines from the CMER we shall discuss the practicalities of so doing with NI Water.

2.2. Water Service Tables

Table CM1 – Water resources & treatment

\[^{1}\text{http://www.ofwat.gov.uk/legacy/aptrix/ofwat/publish.nsf/AttachmentsByTitle/cons_capmain_releff040507.pdf/\$FILE/cons_capmain_releff040507.pdf}\]
No specific guidance.

**Table CM2 – Water distribution infrastructure**

No specific guidance.

**Table CM3 – Water distribution non-infrastructure**

No specific guidance.

**Table CM4 – Water management and general**

No specific guidance for this table.

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### 2.3. Sewerage Service Tables

#### Sub regional sewerage service information

For the sewerage service explanatory factors tables CM5 to 8 and CM11, NI Water is not required to submit information at a sub regional level.

**Table CM5 – Sewerage infrastructure**

No specific guidance

**Table CM6 – Sewerage non-infrastructure**

No specific guidance

**Table CM7 – Sewage treatment**

This table requires the input of average daily loads received in kg BOD$_5$ per day by treatment work and size band. The average daily load for each sewage treatment works should be calculated as the total annual load received in kg BOD$_5$ by the works divided by 365. The figures reported in these lines is the sum of the loads received by each works in each area.

**Table CM8 – Sludge treatment and disposal**

Sludge disposal route classifications

- **Farmland:** This includes spreading both conventionally treated and advanced treated sludge directly to farmland
- **Incineration:** This includes disposal of both conventionally treated and advanced treated sludge
- **Landfill:** This includes disposal of both conventionally treated and advanced treated sludge.
Land reclamation: This includes disposal of raw, conventionally treated and advanced treated sludge.

Other: If you dispose of sludge using any other disposal route then include the amount in the 'Other' category and provide a description of the disposal route(s) together with a breakdown of the amount of sludge disposed.

**Table CM9 – Sewerage management & general**

No specific guidance

**Table CM10 and CM11**

Contains data from previously submitted Annual Information Return information from Table 32.
Chapter 3 - Special Factors & Atypicals

3.1. Capital Maintenance Special Factors

3.1.1. In the commentary to the expenditure tables (CM10 and CM11), NI Water should set out clearly where it considers that a company specific factor consistently affects maintenance spend different from other comparators. The company should not make any adjustments for company specific special factors in this submission. The company should however address the following questions when making a case for a special factor:

- What is different about the company’s circumstances that cause it to experience materially higher (or lower) costs than those of other companies?
- Why do these circumstances lead to materially higher costs than those of other companies?
- What is the net monetary impact of these costs? What has the company done to manage the additional costs arising from the special circumstances and to limit their impact?
- Provide details of the adjustment needed to offset the impact of any other special circumstances that reduce the company’s costs relative to industry norms, so it only reports net additional costs.

3.1.2. NI Water should provide relevant calculations and detail behind the estimation of special factors for a particular area of spend. The Regulator may ask the Reporter to look at the detail of these special factors depending on the materiality of the claim.

3.2. Atypical Costs

3.2.1. NI Water should detail any ‘one-off’ or atypical maintenance expenditure which it considers may be impacting on average capital maintenance costs. The company should detail:

  a) The cause of the exceptional cost;
  b) Why the cost cannot be considered business-as-usual;
  c) The year in which it occurred; and
  d) The impact of the event on maintenance expenditure.

3.2.2. Atypical costs must be identified with a particular exceptional event e.g. extreme weather conditions etc. It should not be confused with ‘normal’ maintenance activity which has the potential to have a ‘lumpy’ expenditure profile.