

Price Control 2010 Business plan **Public Summary**



Contents

1. Chairman and Chief Executive's Forward	3
2. Background to the Business Plan	4
3. Our Corporate Strategy	9
4. Costs of Delivery	12
5. Efficiencies, risks and uncertainties	16
6. Financial Projections	17
7. What happens next?	18
8. References	19

Copies of this Public Summary are available in alternative formats on request.
See Section 7 for details



Education: NI Water's education team show local children the basis of water treatment

FOREWORD



Leadership: NI Water Board

We are pleased to present a summary of our Business Plan for the period 2010-2013. Northern Ireland Water is the provider of Northern Ireland's most essential service, with almost every home and business relying on us. The purpose of this Plan is to provide the Northern Ireland Authority for Utility Regulation [NIAUR] with the information it needs to set the levels of domestic subsidies, and non-domestic customer charges for the period 2010-13.

This is the first time that the plans of Northern Ireland Water [NI Water] have been scrutinised in this way, however it is standard practice across the rest of the UK and will be a regular feature of the company's future operations. It is also an opportunity to outline our priorities and those of our customers.

In developing this Business Plan we have followed the guidelines laid down by NIAUR and the Department for Regional Development [DRD]. We also engaged extensively with our customers and other stakeholders to understand their needs and opinions. Our Plan delivers the service improvements that our customers want. It prioritizes investment in the water and sewerage networks and sets challenging targets to deliver further efficiencies in the way we run our business.

NI Water has come a long way in two years. We have invested nearly £1million every working day in our water and waste water infrastructure and are delivering the best ever water and waste water standards to the people of Northern Ireland. However, we are not yet a

mature utility. We inherited a backlog of under-investment with significant gaps in our information systems and are still several years behind the GB water utilities in this respect. Our ability to catch up with GB water utilities will be determined by the level of resources available to the company.

We are confident our progress will continue in 2009-10, the final year of the Strategic Business Plan. If we are to deliver similar progress in the new three year period 2010-11 to 2012-13 efficiently and effectively, it is vital that appropriate resources are allocated within the PC10 process, and that in turn, the financial resources determined by the Utility Regulator are agreed by the NI Executive.

We know the importance of high quality and reliable water and wastewater services to you, our domestic and business customers. We are committed to the delivery of the 2010-13 Business Plan (PC10), which has been designed to significantly improve the service we offer while delivering continued efficiencies. We are confident that, if the Business Plan is approved, we will deliver a Water and Wastewater company Northern Ireland can be proud of.

Chris Mellor
Chairman & Chief Executive

2. BACKGROUND TO THE BUSINESS

2.1 Background

Northern Ireland Water was formed on 1st April 2007 and is operated as a commercial business to benefit customers. Emerging from a Civil Service ethos, the company has begun a major process of transformation into an efficient, customer focused business. Through the delivery of water and sewerage services we play a critical role in support of the health and well-being of our communities and the protection of our local environment. In summary:

- Every day we deliver over 600 million litres of good quality drinking water to homes and businesses across the province.
- Every year we collect and treat over 134 million cubic metres of wastewater.
- We have approximately 735,000 customers (domestic and business).

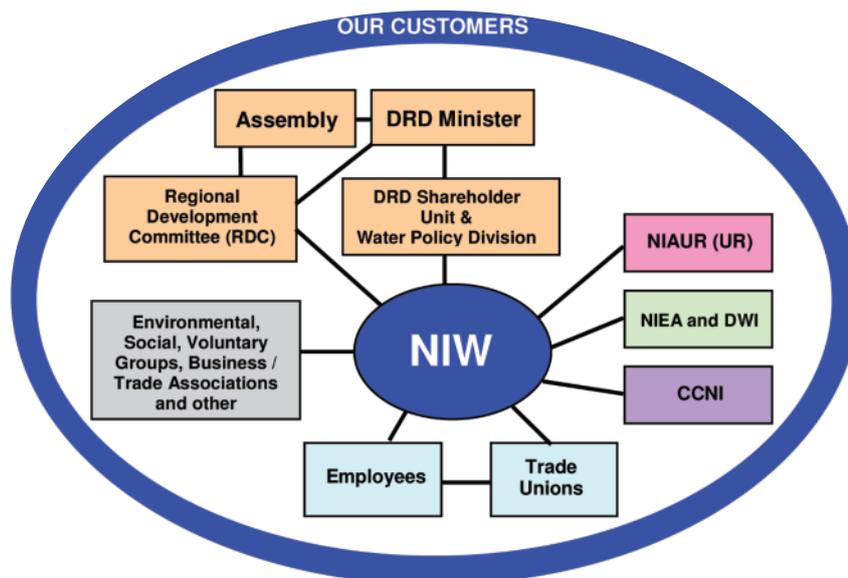
- We maintain over 26,500 km of water mains.
- We maintain over 14,500 km of sewers.
- We operate 2,700 treatment works, reservoirs and pumping stations.

Our Stakeholders

NI Water is the sole provider of public water and sewerage services in Northern Ireland. There is, therefore, a high level of public interest in water reform and the important services we provide. Our operations are fully regulated and scrutinised by an extensive range of stakeholders. One of these, the Northern Ireland Authority for Utility Regulation [NIAUR] has been appointed as the economic Regulator for water services and has responsibility for determining how much funding the company needs to deliver its services.

Our relationship with our stakeholders is critical to our success and we have been continually engaged with them throughout the preparation of this Business Plan.

Figure D.2.1. NI Water's key stakeholders¹



¹ Our Stakeholders:

DRD Department for Regional Development: Our Shareholder.

NIAUR Northern Ireland Authority for Utility Regulation: Our economic regulator.

NIEA Northern Ireland Environment Agency: The environmental regulator.

DWI Drinking Water Inspectorate: Drinking water quality assurance.

CCNI Consumer Council for Northern Ireland: Protecting the interests of the consumer.

RDC Regional Development Committee: Monitoring our performance.

2.2 Delivery of the Strategic Business Plan (2007-10)

Northern Ireland Water's plans for our first three years of operation were defined in the 'Strategic Business Plan' (SBP), covering the period from 1st April 2007 to 31st March 2010.

Throughout this period, our performance has been continually improving.

For example, we have:

- Achieved the best ever drinking water quality in NI.
- Achieved the best ever wastewater treatment compliance in NI.
- Achieved compliance at all 9 sites which were previously facing heavy fines from the EU.
- Opened 5 major wastewater schemes.
- Built or refurbished a further 94 medium and small wastewater treatment works.
- Removed the risk of 'out of sewer' flooding from 102 properties.
- Improved the water pressure at 5,466 homes.
- Improved our customer response times and customer satisfaction ratings.

2.3 Transforming the business

To achieve the challenging targets in the Strategic Business Plan, NI Water initiated a series of transformation projects known collectively as 'The One Programme'. One way to understand the scale of this programme is to consider that at the time of writing, we have 81 live projects, all designed to transform the way we operate as a business to deliver services to meet the demands of the 21st Century and the changing needs of our customers. While improvements to customer service are central to this work, there are other benefits. The One Programme is forecast to deliver efficiency savings of some £116 M.



Building: a new water trunk main being laid

2.4 Developing the PC10 Business Plan

However, the SBP was just the beginning of a journey for NI Water. Given the past under-investment there is still much to do, so we must now prepare a business plan for the three years 2010-2013, that continues to build on the progress that has been achieved. This will then be submitted to NIAUR who will make a decision on what funds should be made available for the next stage of the journey.

The 2010-13 Business Plan (PC10) will reflect the priorities of our customers and shareholder, the Department for Regional Development. These priorities were laid out in:

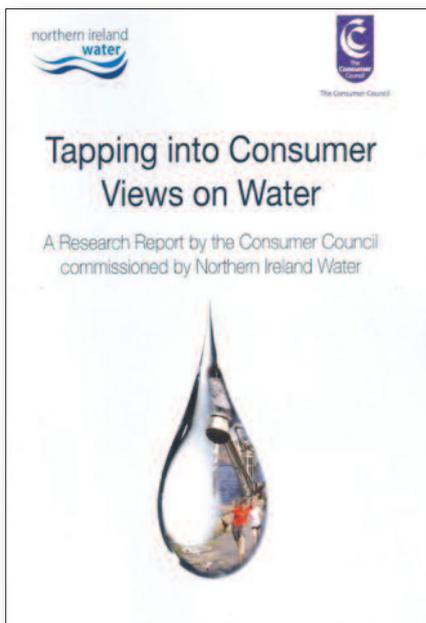
- The CCNI's customer survey - "Tapping into Consumer Views on Water", which was commissioned by NI Water.

- The DRD's draft "Environmental and Social Guidance for Water and Sewerage Services".

Given the scale of the monies involved and the importance of the service NI Water provides, we understand that NIAUR will conduct further public consultation before arriving at a final decision on charges and subsidies.

2.5 Defining the Priorities for 2010-13 Business Plan

At the heart of the NI Water PC10 submission is the outcome of customer research, conducted in partnership with the Consumer Council and referred to above.



Customer Views

The results of the CCNI customer survey identified the following top 5 customer priorities:

1. Out of Sewer flooding inside properties.
2. Pollution from sewage discharges to inland waters.
3. Safety of tap water.

4. Pollution from sewage discharges to coastal waters.
5. Response time to enquiries or complaints.

In the customer focus groups which followed, leakage was also highlighted as a concern for customers.



Accountability: Chairman Chris Mellor with DRD Minister Conor Murphy

DRD Draft Environmental and Social Guidance

Building on the findings of the customer research, NI Water's shareholder (DRD) produced draft environmental and social guidance (E&SG). The E&SG states that the overarching priorities for investment are customer affordability, compliance with EU legislation, service improvements and sustainability. Below we have summarised the six priorities for investment, based on consideration of customers, as well as what NI Water proposes to do to deliver on each of them within the PC10 Business Plan:

Figure D.2.2 NI Water’s planned activities in response to E&SG priorities

E&SG priority	NI Water’s planned activities
1. Meeting EU quality obligations (statutory driver)	Complete quality improvements to water and wastewater services. Address immediate new development pressures for mixed quality and supply demand driven schemes. We have not been able to include schemes specifically aimed at reducing immediate development pressures
2. Improving service levels (non-statutory driver)	Reduce the risk of ‘out of sewer’ flooding inside properties. Improve customer information systems and customer service. Adopt a business operating model that prioritises customers. Improve the accuracy and reliability of information reported by the business. Reduce the number of supply interruptions of more than 6 hours. Reduce the number of pollution incidents.
3. Water leakage and pressure (non-statutory)	Meet our target on the level of leakage. Remove more than 70% of the properties currently experiencing low pressure.
4. Surface flooding (non-statutory)	In the context of NI Water, surface flooding means external ‘out of sewer’ flooding incidents. We will work with other responsible agencies to respond effectively.
5. Longer-term EU requirements beyond 2013 (statutory driver)	Investigations relating to Water Framework Directive and Urban Wastewater Treatment Directive compliance.
6. Sustainability and climate change (non-statutory drivers, and Carbon Reduction Commitment)	Increase sustainability through the adoption of innovative technology and processes. For example: <ul style="list-style-type: none"> • Increase sustainable power generation. • Increase power efficiency through process control and choose solutions that lower consumption. Other initiatives to promote sustainability including: <ul style="list-style-type: none"> • Continuation of our education programme, and promoting the efficient use of water among our customers. • Produce a 25 year Strategic Direction Statement for 2013-38.

Context of Investment

Water and sewerage assets are used on a continuous basis, all of the time. They must therefore be well maintained and continuously monitored to determine when their timely repair or replacement is necessary. Throughout the latter part of the 20th century investment in this essential work was insufficient throughout the UK. In 1989 in England and Wales there was a significant increase in the levels of investment when major reform of the system there took place.

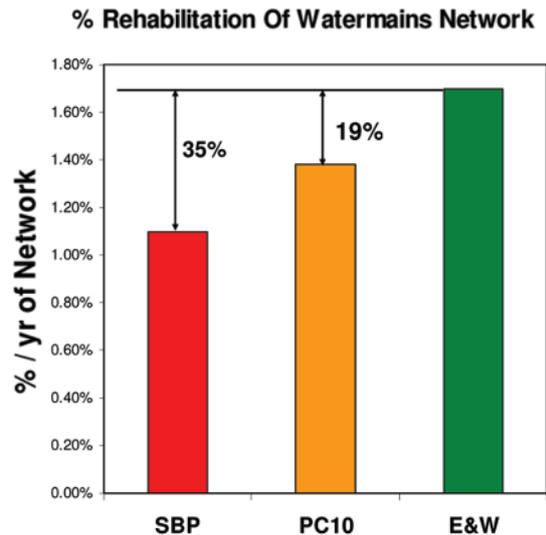
Such a ‘step change’ in investment expenditure did not occur in Northern Ireland until 2004, with this funding being used to significantly improve compliance in the worst offending areas and to begin to deliver enhanced services to customers. However, the need for sustained levels of investment will continue, as we must achieve higher wastewater treatment standards to protect our waterways, reduce the frequency of storm overflow events from our sewerage networks, and maintain an adequate water supply to our growing population.

We must achieve this taking into account the potential impacts of changes to our climate.

NI Water will work hard to deliver the best level of services possible within the constraints of the legacy of under-investment in water and sewerage services we have inherited. One good example is the rate of water mains replacement activity. Each year a proportion of the watermain network must be replaced to protect continuity of service. Figure D.2.3 shows that in 2007-10, with increased investment, the NI Water rate still lagged 35% behind the replacement rates of the England and Wales water companies who have similar asset stocks to NI Water.

The proposed rate of replacement during PC10 will improve, but due to funding constraints it will only go part of the way toward closing this gap, with the rate still behind by 19%. If the pace of investment in the provision of water services in Northern Ireland is not addressed, there will be an even greater and more expensive catch-up required in the future.

Figure D.2.3. Percentage of new and renewed mains per year compared with similar E&W companies



Communication: a member of NI Water's front line team visiting a customer



3. OUR CORPORATE STRATEGY

3.1 Developing our corporate strategy

When we came to write our business plan for the PC10 period, we wanted to focus it on a theme that summed up what we are trying to achieve through our transformation. Given that Prioritising Customers is at the centre of our change programme and the service we provide, it has been chosen as the foundation stone and title for our business plan.



3.2 Corporate strategy

Our central vision is to become, working as one team, the number one water utility in the UK and Ireland by 2014. During the SBP period, we have been asked to explain what this vision meant in real terms. In Figure D.3.2 we set out what our success criteria will be in each of our four key areas – Customer, Cash, Compliance and People.

In Figure D.3.2. we set out our 'roadmap' describing how our key objectives for the 2010-13 period will help deliver this vision.



Corporate Vision and Success Criteria:

Working as
one team
we will become the
number one
water utility in
the UK and Ireland
by 2014

Figure D.3.2. NI Water’s Road Map to planning for the PC10 period.



3.3 Achieving the right balance for customers

We believe the PC10 Business Plan reflects the priorities of customers, the draft Environment and Social Guidance and the need to make inroads into the investment backlog, and therefore achieves a good balance for customers.

We will invest in our people, processes and systems to enable faster, better informed responses to incidents on our water and sewerage networks. The aim is to enable more proactive work, reducing the need for reactive work, thereby enhancing the customers’ experience of our services. NI Water’s transformation is delivering and will deliver real benefits to customers and the environment.

Measuring Our Results

It is important that our activities show measurable results. We have set performance targets for PC10 and will monitor and report progress against these targets to stakeholders. Our performance indicators and targets are summarised in Table D.4.2. These will be used by NIAUR as a benchmarking tool for comparing NI Water with GB companies.

Table D.4.2. Planned performance against regulatory performance indicators in 2010-13

Service area	2009/10	2010/11	2011/12	2012/13
Properties at risk of receiving pressure below reference level	4,855	3,258	2,268	1,550
% of properties experiencing supply interruptions longer than 6hrs	0.897	0.860	0.822	0.785
% of properties experiencing supply interruptions longer than 12hrs	0.225	0.219	0.212	0.206
% of properties experiencing supply interruptions longer than 24hrs	0.010	0.010	0.010	0.010
Properties at risk of internal sewer flooding – number removed from register over the period	-	-	-	200
% of Billing queries answered within 5 working days	98	99.99	99.99	99.99
% of Written complaints answered within 10 working days	98.0	98.5	98.5	98.5
% of metered accounts with Bills based on meter reading	95.0	97.5	98.5	99.6
Call handling satisfaction rating (1 = low; 5 = high)	4.6	4.7	4.7	4.7
% of calls not abandoned	99	99	99	99
% of calls not all 'lines busy'	99.99	99.99	99.99	99.99
% of tap water meeting water quality compliance standard	99.65	99.7	99.7	99.7
% of Wastewater treatment works passing UWWTD numeric consents	91.9	91.7	94.4	98.6
% of Wastewater treatment works serving > 250 pe achieving compliance with NI Water Order (pe = population served including industry)	87.0	87.6	89.8	93.1
Wastewater treatment works serving > 250 pe achieving compliance with NI Water Order Consents expressed (% pe)	93.5	93.8	95.0	97.8
Pollution Incidents (high/medium) – number of pollution incidents attributed to NI Water.	56	54	51	48
Serviceability – Maintaining at least the current service to all customers.	Stable	Stable	Stable	Stable
Leakage (MI/d)	182	178.3	174.8	171.8
Security of water supply index (maximum =100)	44	77	78	79
'Lost Work Day' accidents during the year	12	11	10	9

Innovation: a NI Water maintenance engineer using new mobile technology



4. COSTS OF DELIVERY

4.1 Capital expenditure

Our capital programme aims to deliver the maximum possible output in line with DRD's Draft E&SG and customer priorities and within the planned funding constraints.

During the PC10 2010-13 period we plan to invest £622 million of which:

- £268 million will be spent on maintaining our assets.
- £354 million will be spent on quality and service enhancements.

While these numbers are large, it is important to remember that PC10 is the next step in a longer term journey towards the same level of service and efficiency as GB water companies. The journey will continue into the PC13 period (2013-2018). The nature and extent of the need for this investment is seen in the following maps.

Figure D.4.1. Water strategic trunk mains enhancement schemes planned for the PC10 and PC13 periods.

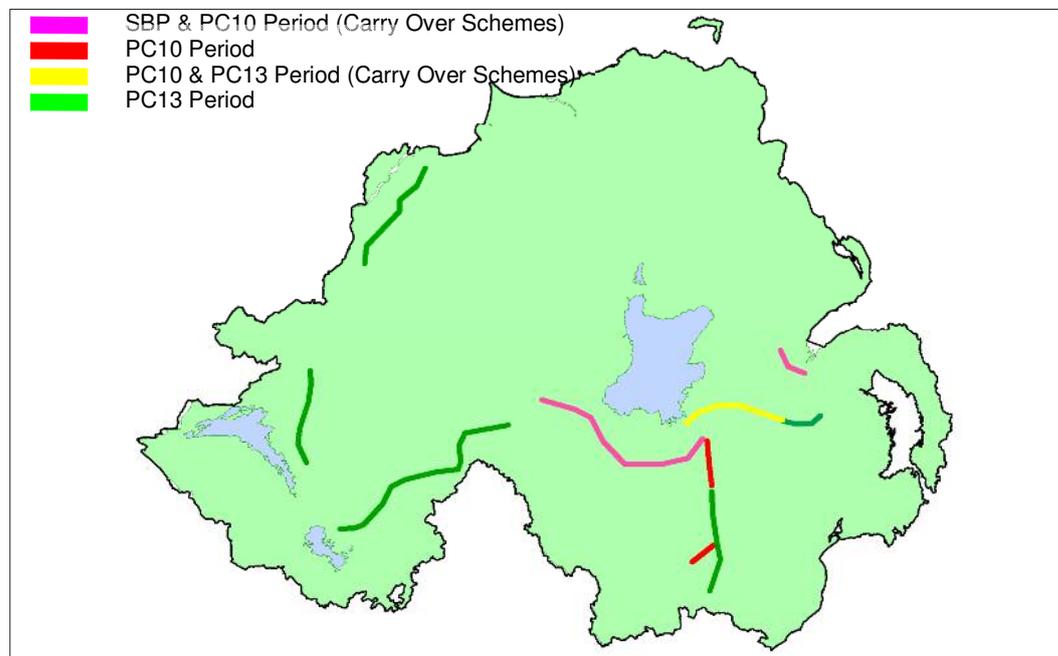


Figure D.4.2. Water treatment works enhancement schemes planned for 2010-13

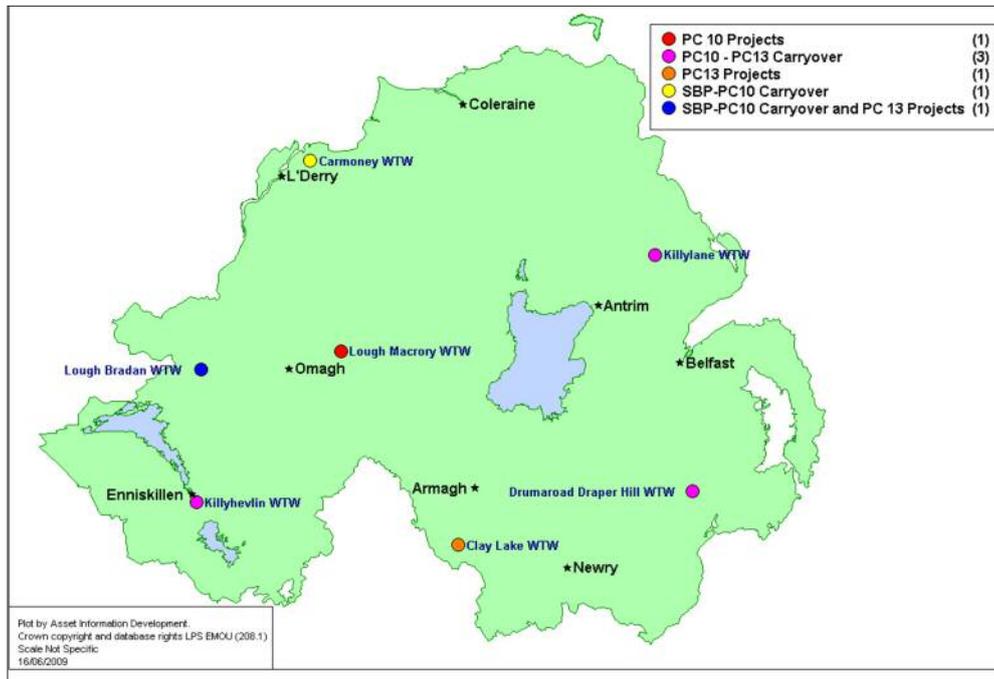


Figure D.4.3. Capital enhancements investment driven by the Bathing Waters and other EU Directives planned for 2010-13

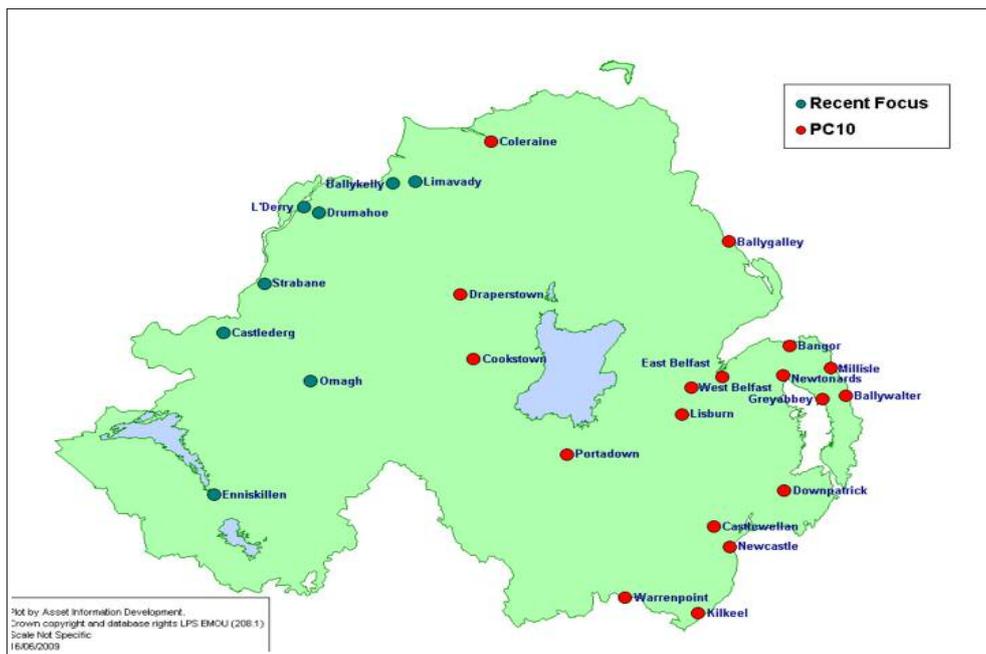


Figure D.4.4. Wastewater treatment works enhancement schemes started in 2007-10 and planned for completion in 2010-13

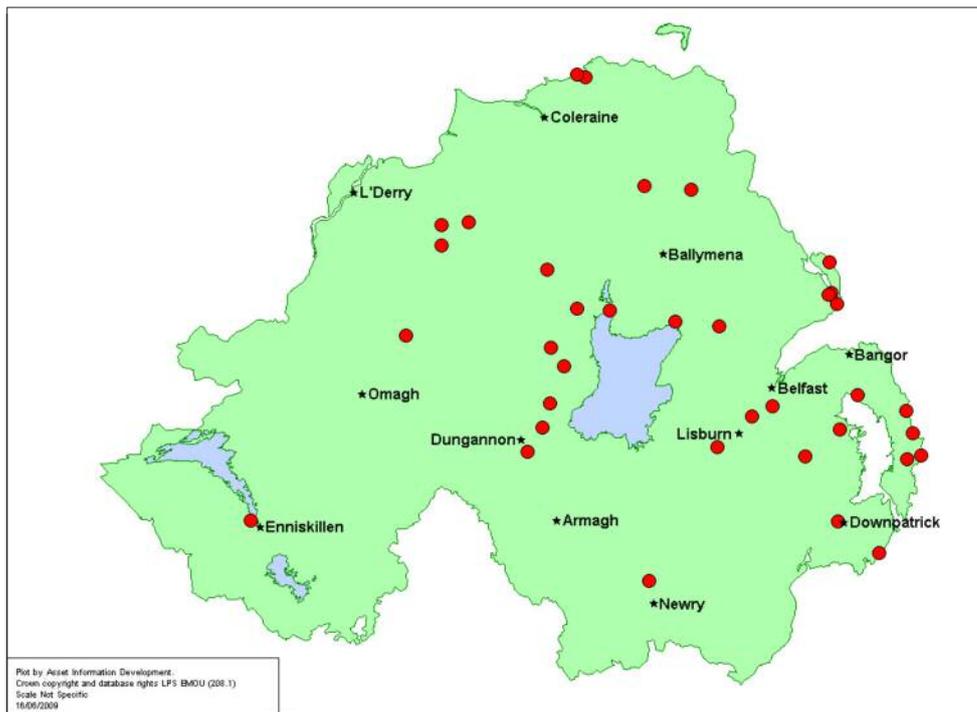
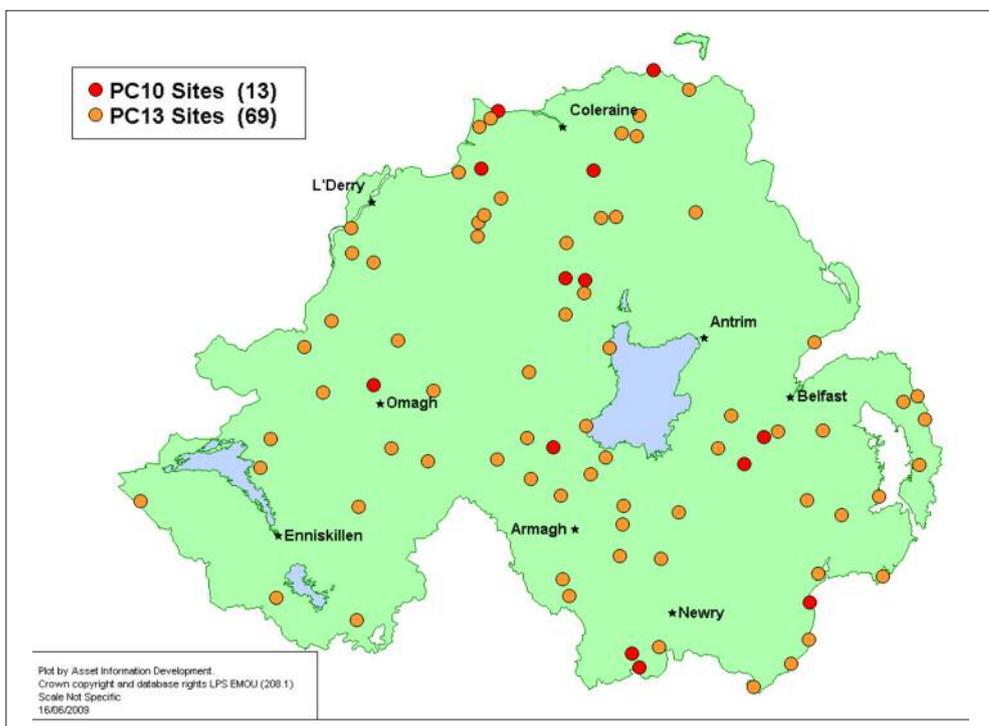


Figure D.4.5. Wastewater treatment works enhancements planned for the PC10 and PC13 periods



4.2 Operating expenditure

The operating costs of NI Water include items such as staff costs and operating expenses (for example power, outsourcing, materials and equipment, chemicals, and accommodation).

Figure D.4.6. demonstrates the scale of NI Water's operations and how much they cost. This chart shows a significant increase between 2007/08 and 2009/10 before levelling off and reducing in the PC10 years:

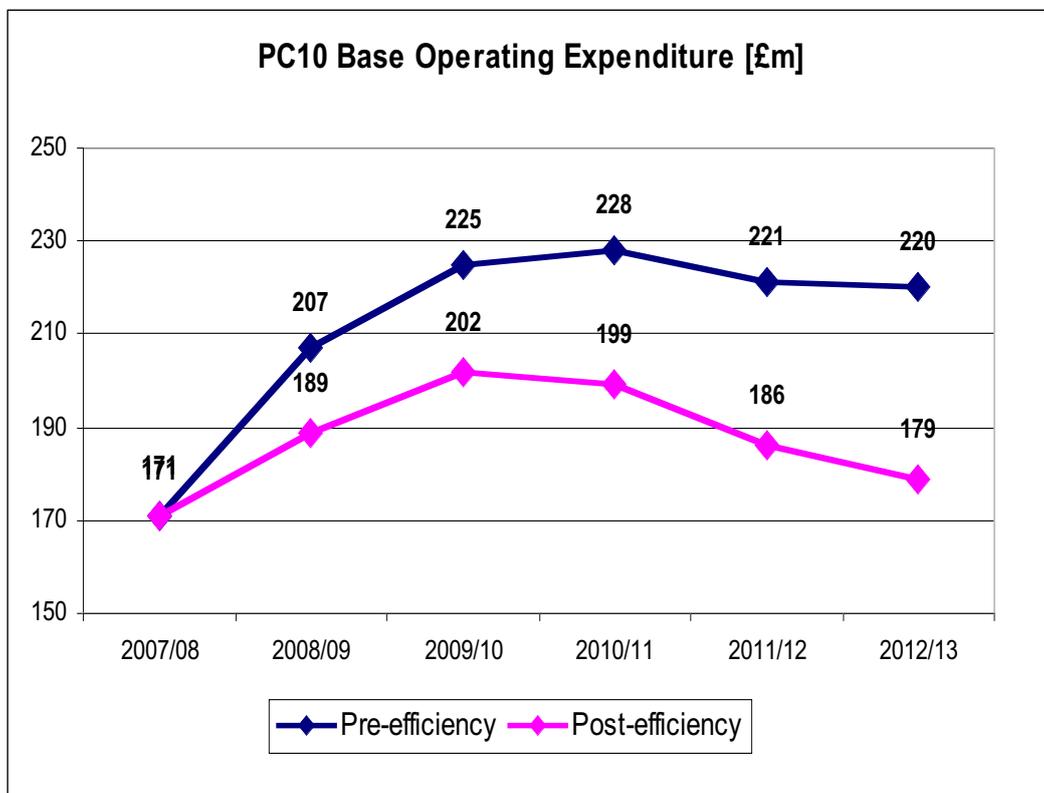
- 2007-10 – the primary causes for the increase over this period are the extra treatments required to meet quality standards, the introduction of the PPP Alpha and Omega projects² and increases in the cost of power.
- 2010-13 – costs in general are forecast to reduce from 2009/10, over the PC10 period.

Figure D.4.6. shows projected operating costs as they would be if no efficiency measures were put in place [Pre-efficiency]. Also shown are the target operating costs that we plan to achieve during both the SBP and PC10 periods. [Post-efficiency].



Investment: Antrim waste water treatment works being upgraded

Figure D.4.6. Operating costs for 2007-13 (2007/08 prices [£m])



² Two PPP [Public Private Partnership] schemes have been implemented during the SBP period. Alpha now provides approximately half of NI Water potable bulk water supply. Omega represents 20% of wastewater treatment and 100% of sludge disposal.

5. EFFICIENCIES, RISKS AND UNCERTAINTIES

5.1 Delivering efficiency savings

Operating efficiency

Over the first two years of the SBP period (2007-2010) we have made good progress on the efficiency targets and are on track to deliver the promised 26.5% efficiency target against our 2003-2004 baseline. Within the period of SBP we are on target to deliver operational efficiencies totalling approximately £60 million³ [16%] compared with the baseline operational costs for the last year of DRD Water Service (2006/07).

Efficiency improvements will continue, with a projected further 10% efficiency gain by the end of the PC10 period (2010 – 2013). Efficiency savings within the PC10 period are forecast to be a total of £36 million.

Capital efficiency

During the Strategic Business Plan Period 2007-10, NI Water has introduced new asset management systems which have improved the value for money achieved by capital construction projects. We are currently achieving better than average procurement costs of companies in England and Wales for all asset areas.

We plan to continue to reduce our cost of procurement and increase value for money by introducing an Alliance partnership approach to our capital works procurement. Our target is to achieve 8.4% efficiency on capital expenditure by 2012/13.

5.2 Risks and uncertainties

NI Water has a well embedded risk management culture. In considering the risks for the 2010-13 period, the principal risks that may impact on the business but which are outside of our control, have been identified and reported to NIAUR. A protocol is in place to enable the company and our stakeholders to manage these uncertainties.



Risks: recent flooding in Belfast

A key uncertainty for customers and the company is around the introduction of domestic water charges. The Regional Development Minister has proposed to the NI Executive that the introduction of domestic water charges should be deferred post-2010, and re-assessed at a later stage. In turn, we have made the assumption for planning purposes only that domestic billing will not be introduced during the PC10 period.

³ All savings are quoted at 2007/08 prices.

6. FINANCIAL PROJECTIONS

6.1 Revenue

Revenue will be generated from a mix of subsidies and charges – projected as follows:

Figure D.6.1 Revenue Allocation

Year	2009/10	2010/11	2011/12	2012/13
	%	%	%	%
Domestic subsidy	65.92%	66.27%	66.59%	66.59%
Non-domestic subsidy	3.48%	3.81%	3.86%	4.00%
Income from charges (including road drainage charge)	30.60%	29.92%	29.55%	29.41%
Total	100.00%	100.00%	100.00%	100.00%

Revenue Forecast (2007/08 prices - £m)

Revenue requirements, forecast by NI Water, for the PC10 period

	2010/11	2011/12	2012/13	Total
Forecast Revenue (2007/08 prices - £m)	357	365	371	1,093

7. WHAT HAPPENS NEXT?

We reached an important milestone in the PC10 process when we submitted our Business Plan to NIAUR. This will enable NIAUR to scrutinise the plan, determine our targets and the appropriate level of funding that NI Water will need to meet them, and also the subsidies that the company should receive during the PC10 period of 2010 to 2013.

In September 2009, NIAUR will issue a Draft Determination of what these should be between 2010 and 2013. There will then be a period of consultation before NIAUR issues a Final Determination in December 2009.

Funding for the subsidy will require the approval of the Northern Ireland Executive, and we look forward to a positive outcome. NIAUR's process for the draft and final determination will be set out on documents to be included on the website <http://www.niaur.gov.uk/>.

Your feedback

Delivery of the PC10 (2010-13) Business Plan, if approved, will continue to transform water and wastewater provision, customer service and the efficiency of NI Water.

We have consulted with customers and other stakeholders in the formulation of this Business Plan and we welcome any further feedback.

The Business Plan is available in other formats on request.

PC10 Review
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8. REFERENCES

1. "NI Water Licence", 2006, Northern Ireland Authority for Utility Regulation
2. "Water Stakeholder Partnership Agreement", Department for Regional Development, October 2008.
3. "PC10 Reporting Requirements", Northern Ireland Authority for Utility Regulation.
4. "Tapping into Consumer Views on Water", Consumer Council of Northern Ireland, March 2009.
5. "Environmental and Social Guidance for Water and Sewerage Services (2010 – 2013)", Department for Regional Development, March 2009.
6. "Annual Report, 2007/08", Northern Ireland Water, July 2008.

Customers: our focus



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