

PC13 Business Plan Summary

August 2012



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FOREWORD

We are pleased to present a summary of our Business Plan for the price control period 2013-2015 (PC13). The purpose of this Plan is to provide the Northern Ireland Authority for Utility Regulation (Utility Regulator) with the information it needs to set the levels of domestic subsidies and non-domestic commercial customer charges for the PC13 period.

NI Water is currently working through its first fully regulated price control period - PC10. This has been a challenging period for the organisation, but throughout my first year as Chairman of NI Water I have been impressed by the dedication of the workforce committed to continuing the transformation of the organisation towards a modern, customer focused, regulated water utility.

The result of their work is reflected in achieving the highest levels of quality in both drinking water delivered to Customers and wastewater compliance ever seen in Northern Ireland. Underpinning much of these improvements is the delivery of approximately £500m of Capital Investment Programmes in the 3-year PC10 period, improving and maintaining our infrastructure. All of these and other improvements in performance have been achieved against a background of improving control and focus on efficiency and cost improvement. During this current year, 2012/13, we aim to complete PC10 and deliver the commitments we made when we agreed that Business Plan with our Stakeholders.

In shaping our Business Plan for PC13 we have worked with our Stakeholders and are pleased that this Plan sets out our intentions to continue to improve the service to Customers today and to continue to invest to safeguard service for future Customers. It also supports key elements of the current Programme for Government for Northern Ireland in delivering necessary infrastructure and wider strategic aims. The plan reflects that we will do this with continued improvements in our efficiency.



Seán Hogan, Chairman

1. BACKGROUND TO THE BUSINESS PLAN

1.1 Overview of NI Water

1.1.1 NI Water was formed on 1st April 2007 to deliver Water and Sewerage services across the whole of Northern Ireland. These vital services support the health, environment and local economy of the areas we serve¹.

- **Every day** we deliver **625 million litres** of clean, safe drinking water to approximately **806,500 households and businesses**.
- We do this by maintaining approximately **26,500 km of water mains**.
- The water we treat and deliver is the **highest quality ever experienced** in Northern Ireland.
- We collect approximately **308 million litres of wastewater per day** from approximately 608,000 Customers connected to the sewerage system, and transport it through approximately **15,000 km of sewers** to Works where it is treated and **disposed of safely**.
- Our wastewater **compliance** is the **highest ever in Northern Ireland**, having **continually improved** over the last 6 years.

1.1.2 Our business is regulated through price control by the Northern Ireland Authority for Utility Regulation (the Utility Regulator) which requires a Business Plan to be produced as the basis for establishing the funding and performance targets for the organisation for the subsequent period of price control.

1.1.3 Our Business Plan for the PC13 price control period (2013-2015) is designed to build on the developments and success of our PC10 Plan and maintain and enhance services to Customers. During the PC13 years we will:

- **Invest** to maintain the current high levels of water quality and wastewater compliance;
- **Invest** to reduce the number of **interruptions in supply** to Customers;
- Reduce the number of properties at risk of 'out of sewer' **flooding**; and
- Further **reduce leakage** from our network.

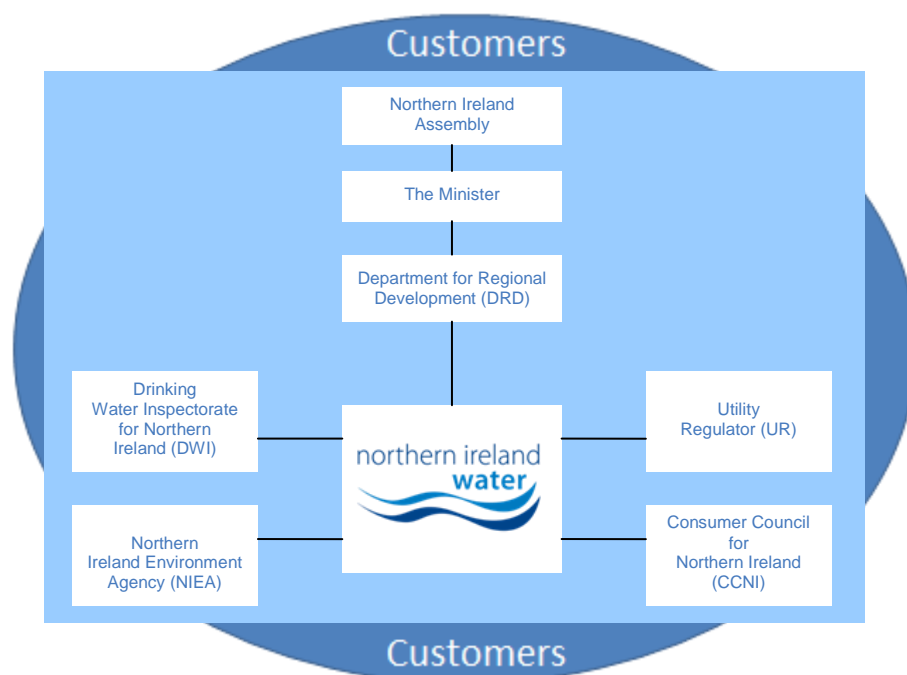
¹ The figures quoted in paragraph 1.1.1 are drawn from the NI Water Annual Report & Accounts for year ended 31 March 2011.

1.2 Our Stakeholders

1.2.1 NI Water operates both as a Government Owned Company (GoCo) and a Non Departmental Public Body (NDPB). This dual status places restrictions, and indeed some inefficiencies in the way the organisation operates.

1.2.2 The relationship with our Stakeholders is therefore critical to our success and we have been continually engaged with them throughout the preparation of this Business Plan.

Figure 1: Water industry Structure in Northern Ireland

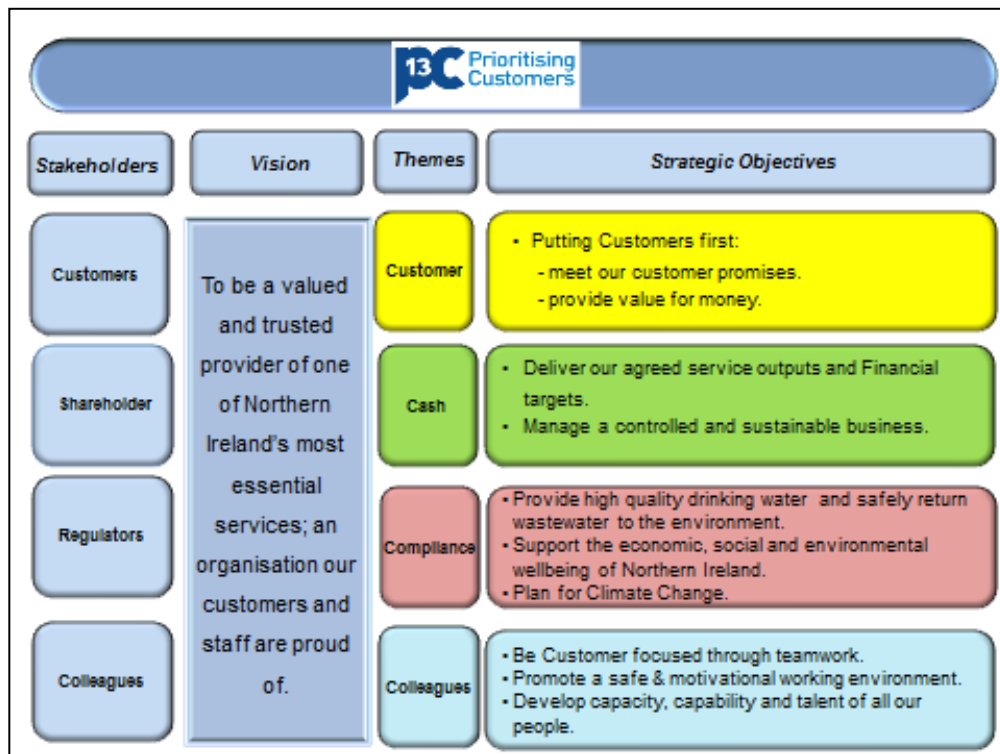


1.3 Our Corporate Vision and Objectives

1.3.1 Our Business Plan is based on prioritising our Customers, and a clear vision of the way ahead for NI Water.

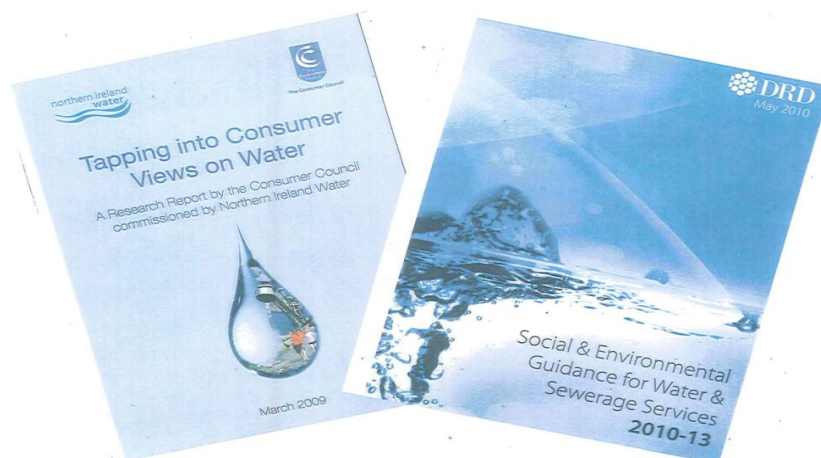
1.3.2 Our vision, core themes and objectives are encapsulated within the PC13 'road map' which expresses the culture and ethos of our organisation.

Figure 2: The PC13 'Roadmap'



1.4 Prioritising Customers

1.4.1 As in the PC10 period, our PC13 Business Plan is based on the principle of prioritising our Customers. We have achieved this by working closely with Stakeholders and taking account of both customer views² - as expressed in surveys undertaken by the Consumer Council for Northern Ireland (CCNI), and Social & Environmental Guidance issued by the Department for Regional Development (S&EG).



² Tapping into Customer Views, CCNI, March 2009.

1.4.2 A range of Customer priorities, including the top 5 as determined by the survey, have been addressed in our Business Plan:

Top 5 Customer Priorities	PC13 Business Plan
Out of sewer flooding inside properties	✓
Pollution from sewerage discharges to inland waters	✓
Safety of tap water	✓
Pollution from sewage discharges to coastal waters	✓
Response time to enquiries or complaints	✓

2. DELIVERY OF THE PC10 PRICE CONTROL (2010- 2013)

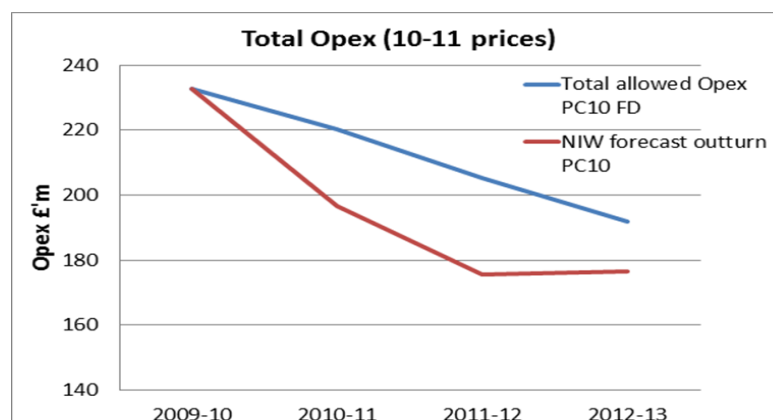
2.1 Our Performance in PC10 to date

2.1.1 The PC10 price control covers the period 2010 – 2013. Throughout the period, the Utility Regulator monitors our performance and publishes the results, of its analysis, in a Cost & Performance Report. The most recent Cost & Performance Report³ confirms that all five targets relating to sewage treatment have been achieved and drinking water quality remains at an historically high level, exceeding the S&EG target.

2.1.2 In addition to achieving these quality targets we have so far out-performed on both operational expenditure and operational efficiency objectives for the PC10 period.

³ Cost & Performance Report 2010/11, Utility Regulator, December 2011

Figure 3: PC10 Operational Expenditure (Opex) Performance against the Final Determination



2.1.3 The CCNI has also reviewed NI Water's progress since 2010:

"We have seen improvements; we have the best ever drinking water and treatment of our waste water, billing and customer services are improving, and NI Water is continuing to become more efficient while continuing to invest. Everyone recognises that there is much more to be done"⁴.

2.1.4 As an indication of how Customers currently rate our performance, results of a recent customer survey undertaken by CCNI⁵ revealed that 84% of domestic customers and 78% of commercial customers are satisfied with the services provided by NI Water.

2.1.5 We welcome the acknowledgement of the progress we are making in improving our service to Customers. Our Business Plan for PC13 is our commitment to continuing to improve what we do and how we do it.

3. THE PC13 BUSINESS PLAN

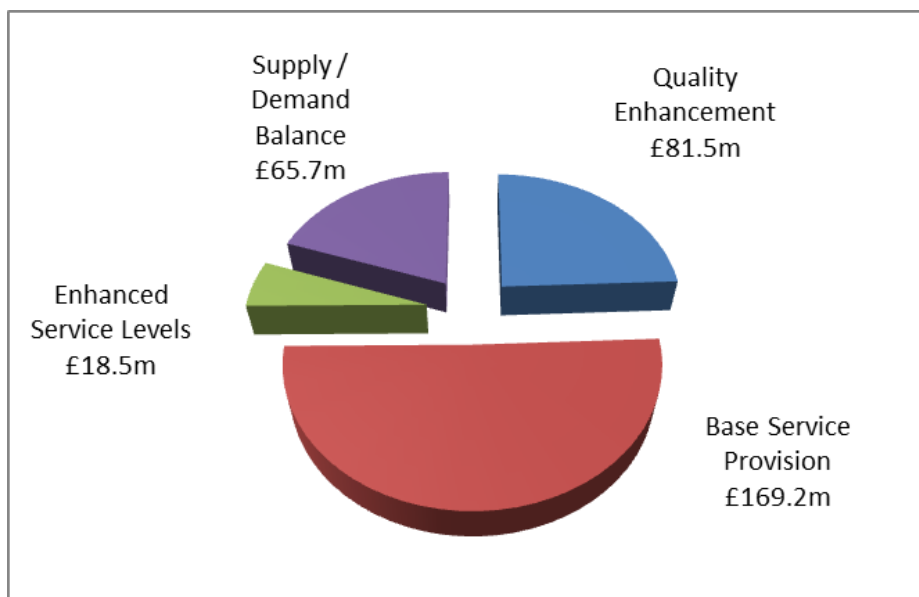
3.1 Investing in the Future

3.1.1 During the PC13 period, we plan to invest £335m in our Capital Investment Programme, of which £169m will maintain our assets and £166m will provide quality and service enhancements.

⁴ Tapping into Consumer Views on Water – Update Report, CCNI, January 2012, page 8

⁵ Long Term Water Strategy – Customer Survey, CCNI, 2012.

Figure 4: Scope of PC13 Capital Investment Programme (£m)



3.1.2 As a result of this Capital Investment Programme to modernise and improve our water and wastewater assets, which was developed in consultation with our stakeholders, we are pleased to announce the following summary of our proposed 2-year Capital Investment Programme.

Figure 5: Summary of PC13 Capital Investment Programme

- Upgrade of 54 Wastewater Treatment Works, including the programme of small Works at 25 sites;
- Upgrade of 2 Water Treatment Works;
- 4 new Trunkmains to improve the flexibility of the existing supply system and minimise the potential for water outages in future;
- 499 kilometres of watermains upgraded as part of a comprehensive Watermains Rehabilitation Programme;
- 1 Service Reservoir upgrade;
- 96 kilometres of new and upgraded sewers; and
- Removal of 92 unsatisfactory sewer discharges.

3.2 Outputs

3.2.1 The PC13 Capital Investment Programme will deliver direct benefits to customers and the environment. Examples of which are shown in Figure 6.

Figure 6: Summary of benefits for our Customers

Our proposals will deliver the following benefits for our customers:

- Remove 67 properties from the register of those at risk of internal flooding;
- Maintain water quality at PC10 levels in accordance with DRD Social & Environmental Guidance;
- Maintain a downward trend in pollution incidents;
- Maintain a downward trend in leakage;
- Remove 288 properties from the register of those at risk of receiving low pressure;
- Maintain a downward trend in supply interruptions; and
- Continue to improve wastewater treatment compliance in line with prioritised list agreed with the Northern Ireland Environment Agency (NIEA).

3.2.2 Customers will also experience benefits in other areas such as improvements in responses to written complaints and call handling satisfaction.

3.3 Operating Expenditure

3.3.1 In line with the Utility Regulator's requirements our PC13 Business Plan takes 2010/11 as the base year for measuring expenditure and efficiencies.

3.3.2 From the base year of 2010/11, we have proposed new and additional costs. 65% of the new cost increase is driven by factors outside of our control. The other 35% is as a result of the further expansion of our asset base.

3.3.3 Our PC13 Business Plan is designed to deliver 13.4% of efficiencies in 2014/15, a saving of £21.7m, from the inception of the first price control in the 2010/11.

Table 1: Net Opex Projections

2010/11 Prices (£m)	2010/11	2011/12	2012/13	2013/14	2014/15
Total Opex	159.4	151.7	157.4	163.8	166.9
Efficiency savings (cum) %		7.8%	10.2%	11.8%	13.4%
Efficiency savings (cum) £'m	0.0	(11.8)	(15.8)	(18.8)	(21.7)
Net Opex	159.4	139.9	141.6	145.1	145.2

3.3.4 These efficiencies will result in net operating expenditure, excluding our Public Private Partnership contracts and inflation, projected to fall from the 2010/11 baseline of £159.4m to £145.2m in 2014/15. (See Table 1 above).

4. WHAT HAPPENS NEXT?

4.1.1 Our PC13 Business Plan is designed to build on our progress to date. It is designed to ensure stability of services to customers while enhancing the customer experience within financial parameters.

4.1.2 We submitted the Business Plan to the Utility Regulator in May 2012. After scrutiny of the Business Plan, the Utility Regulator will issue a Draft Determination in September 2012 of what an appropriate level of funding and associated outputs should be for NI Water; this will be followed by a period of consultation before the Utility Regulator issues a Final Determination in December 2012, with the PC13 period commencing on 1st April 2013.