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Your Ref:

Our Ref: DRD/SUB/1028/2012

Date: 19 November 2012

SHANE,

**PC 13 DRAFT DETERMINATION: DRD RESPONSE**

Thank you for consulting my Department on your draft Determination of NIW's Business Plan for 2013/14 - 2014/15.

I would like to acknowledge the approach you have adopted during the PC process in explaining your rationale for the assumptions and decisions taken in arriving at the draft Determination. I would also thank you for the assistance provided to my officials in presenting information in Public Expenditure terms. These are complex and lengthy documents and your efforts are appreciated.

I acknowledge that your task of balancing cost efficiency with the need to ensure the stability of the company to provide the range of services it is responsible for is a difficult one. I want to ensure that water and sewerage customers receive best value for money as well as sustaining service improvements and building customer confidence. The draft Determination sets stretching targets over the PC13 period and I do not underestimate the challenge for the company in achieving them, especially given its hybrid status and limitations imposed on it by current governance arrangements. The key issue is balancing the risk of robust efficiency targets against the stability of service provision.

The Executive's PFG Commitment to no additional water charges for households during the current Assembly Mandate means that the hybrid status of NIW will continue through the PC13 period. It also means that NIW remains within the Public Expenditure Regime without the freedoms and flexibilities available to comparator water companies in other parts of the UK. This constraint has a material effect on the pace at which NIW can close the efficiency gap with other UK water companies. In addition, the dual governance arrangements within which NIW operates has an "additional overhead" cost implication which needs to be fully taken into account in your final determination.

As NIW's operational expenditure forms part of DRD's budget, I want to be assured that the targets, including the efficiency challenge, are realistic. While it is important that targets are challenging, it is equally important that they are achievable and do not present a risk to future service delivery. Any failure by NIW to deliver efficiency targets would result in pressure on the Department's budget. I would welcome your assurance that NIW can deliver the efficiency targets you (eventually) set without detriment to service delivery and without creating budgetary pressures.

It is important that the regulatory process continues to provide an independent assessment but equally important that responses to the consultation on the draft Determination are given full consideration. I know that NIW has provided a detailed response and, in considering this, you should demonstrate that due weight has been given to the constraints of the current governance arrangements and public expenditure regime.

As I mentioned to you in my letter of 22 November 2011 in giving guidance on strategic planning for PC13 it is important to demonstrate that outstanding PAC and other concerns have been addressed.

I trust that you will continue to work closely with the company over the coming weeks and liaise with the Department as appropriate in the course of arriving at your Final Determination.

A handwritten signature in black ink that reads "Danny Kennedy". The signature is written in a cursive style with a long, sweeping underline.

**DANNY KENNEDY MLA**  
**Minister for Regional Development**