

PC13 Information Requirements Reporter Guidance

Issued 16 January 2012 - Version 02

The business plan

NI Water is required to submit:

- Four hard copies of the PC13 business plan submission (this includes chapter write-up and completed tables);
- One electronic version of the business plan submission; and
- An excel version of the completed tables and financial model.

The business plan should be submitted to the Utility Regulator's office no later than **5pm on Monday the 21st May 2012**.

We also expect NI Water to publish on their website a public facing summary document, forecasting the likely impacts on prices and subsidy from their planned levels of consumer services for the PC13 period. This could take the format of a Financial Picture and a Monitoring Plan table, but it is for the company to decide the best means of communicating its plans to consumers.

On 16th April 2012 the company Reporter shall write to the NIAUR Water Director, drawing attention to all those elements of the company's business plan, as it stands on that date, about which he has serious concerns. Such concerns may arise from audit activity or because audit on areas of the submission had not yet been carried out.

By noon on 1st June 2012 the company Reporter shall submit to NIAUR, 14 Queen Street, Belfast, BT1 6ED:

- a) His report on the company's business plan submission and on any company supporting information. His report shall be as defined in subsequent parts of this guidance and shall comply with the reporter's protocol; and,
- b) The Reporter's General Report which should comply with the protocol requirements relating to Additional Information, Areas of Concern and Areas of Disagreement

The Reporter should submit:

- 6 bound copies of the Reporter's report; and,
- An electronic version of the Reporter's Report.

It is the responsibility of the company to work in conjunction with their Reporter to achieve these deadlines. All parties are expected to ensure delivery by the dates specified. It is the responsibility of the company to ensure that all parts of its business plan and its Reporter's reports, are submitted by themselves by the due dates.

Common assumptions and line definitions

A series of common assumptions that shall apply throughout the business plan are set out below.

- a) Wherever possible unit costs/expenditure formulations have been used in the tabular information. Where unit costs are presented the relevant denominators are also included to enable the easy calculation of the absolute value.
- b) Unless otherwise specified, data and information should be presented to no more than 3 significant figures. Presentation of data or information to greater degrees of precision is likely to mislead. In many instances 2 significant figures will be of sufficient precision.
- c) Confidence grades, following the alphanumeric convention set down for the Annual Information Return, have been called for where relevant.
- d) The base year for understanding the projections of service, compliance, denominators, expenditure and costs shall be 2010-11.

Role of Reporter

The Regulator requires the whole of the business plan and the prescribed supporting information and any additional supporting information submitted by the company, to be subject to effective and focused scrutiny by the Reporter.

The objective of the Reporter is to scrutinise the company business plan and the process by which the company has reached its decisions, and to comment and provide a professional opinion in a report to the Regulator on the company's business planning process and the strategies proposed.

The Reporter's scrutiny of the business plan and its preparation must be such as to expose and report all material assumptions that underpin the estimates. The extent of the challenge of material assumptions must be identified.

The output of this work will be the Reporter's report to us. The Reporter's work will help us achieve an adequate internal consistency of the business plan information submitted by the company and assist us to gauge the comparability, reliability and accuracy of that information.

The general requirements of the Reporter are below.

To further focus the Reporters' work additional guidance is set out where appropriate in subsequent Chapters of the PC13 Business Plan Information Guidance.

Material Assumptions

The audit of the information submitted by the company must be such as to ensure full exposure within its business plan of all material assumptions that the company has made.

The Reporter shall comment on any material omissions including the consequences of their omission.

The Reporter shall identify all assumptions that, in his opinion, are material to the development of reliable and accurate output and cost estimates, and explain the basis for their materiality. Material in this context should be taken as any assumption that singly or in combination with other assumptions directly affects the level of proposed price limits by an increment of 0.2% each year of the review period.

The material assumptions should be subject to scrutiny and where appropriate challenged. The extent of challenges is a matter for the Reporter's judgement. In all cases the scope, extent and reason for the challenge, or non-challenge, must be clear in the Reporter's report.

Comparative Information

The Reporter is required to have regard to the relevance of information regarding the performance of other water and sewerage companies in Great Britain and draw any interpretation which may assist the process of certification and preparation of accompanying commentaries.

The Reporter shall also take account of other relevant information about other company performance which is in the public domain.

Allocation of Expenditure

The Reporter must pay particular attention to the allocation of projected expenditure between the different purpose categories. The reporter shall highlight any changes in the company rules or policy on proportionally allocating expenditure compared with those used for previous reports, particularly in relation to the quality programme and capital maintenance. This must cover the challenge of assumptions and check that the correct allocations are applied in practice.

Proportionality

The Reporter's audit should be directed at those areas of the water company proposals where expenditure is projected to be or has been high. In this way the limited resources of the Reporter can be directed at these areas that are likely to have the greatest influence on the determination.

It is assumed that company estimates are central estimates, i.e. the probability of actual costs being higher or lower than the estimate would be equal. The Reporter should test the hypothesis that estimates are plausible central estimates. If the Reporter believes that the company's actual costs are likely to be higher or lower than estimated costs, he should comment accordingly, and give an opinion on the percentage size of the extent to which they are skewed, e.g. 'I believe in the light of my audit that the projected costs are conservative and a reduction of x-y% would be appropriate to generate a reasonable

central estimate. In other circumstances the Reporter should confirm that the estimates are, in his opinion, reasonable central estimates.

Reporter's Levels of Auditing, Audit Priorities & Time allocation

The levels of sample audit trailing, inspection and examination used for the assessment of the submission shall reflect the objectives of reporting. The Reporter shall be responsible for deciding on the level of audit necessary to satisfy our guidelines or specific questions. The level of audit must be sufficient for the Reporter:

- to be satisfied as to the adequacy of the company methods and procedures to provide information that conforms with our information requirements;
- to be satisfied that the water company's work is consistent with the methods, procedures, policies and assumptions stated by the water company;
- to test that there are coherent and explained links between the current and earlier relevant company submissions;
- to identify the extent to which the methods and procedures adopted by the company for the production of submissions are reasonable;
- to cover the scope of the work as outlined in our guidance;
- to provide a credible system of quality assurance;
- to assess if estimates of expenditure needs or records of costs incurred are adequate; and
- to test that the methods and procedures are followed rigorously and accurately by the company.

The importance to price setting of the information submitted in the business plan varies. The Reporter should therefore give priority to topics, and allocate their time as the guidance dictates and as they consider appropriate. In following this guidance, the Reporter should take account of the individual circumstances of the company.

Audit Plans

The company should cooperate fully with the Reporter during the preparation of their Report on the business plan. The company shall inform the Reporter of their own work plan for producing their business plan. This will enable the Reporter to develop a robust and well founded audit schedule as part of their outline audit plan.

The timetable for audit plan approval for the business plan is set out below. This timetable does not preclude the commencement of the reporting activity at any time before assessment of the audit plan. The Reporter shall include such audit activities in his audit plan so that the full scope of the plan is evident and assessed.

Submitted by 17 th February 2012	Reporter submits to the Regulator a draft outline audit plan, including a work schedule and indicative costs. He will have discussed the guidance with NI Water and obtained its agreement to the audit plan and work schedule.
2 nd March 2012	The Regulator notifies the Reporter of any necessary changes to draft outline audit plan.
16 th March 2012	Reporter agrees any amendments with the company and submits amended outline audit plan to the Regulator.
30 th March 2012	The Regulator gives final feedback on the audit plan, including balance of work load, and sets ceiling costs. Audit plan becomes a controlled document against which progress will be measured.

When preparing his audit plan, the Reporter shall meet with the company to review and understand its approach to the business plan. The Reporter shall also meet with NIAUR to discuss the draft audit plan.

The Reporter shall notify the Regulator of any significant changes in his audit plan and schedule as work proceeds.

The Reporter shall respond to any queries made by us about progress.

Reporter's Report

The Reporter's Report shall be free standing. The reader should be able to understand from the Report the broad thrust of the company business plan and the business model and assumptions underpinning the company's strategy and estimates. The Reporter's opinion must be explicitly stated.

If the Reporter makes use of or refers to documents not within the scope of the business plan, he should include one copy of the material with his submission.

The Reporter's report shall cover as a minimum the following:

- a. whether the business plan has been prepared in accordance with the guidance issued;
- b. disclosure (if not fully exposed in the business plan) of the material assumptions that underpin the explanatory factors, demand forecasts and related charges/income for the company, and the scope and extent to which these material assumptions have been challenged by the Reporter;
- c. the Reporter's assessment and opinion on the material assumptions, and in particular whether all foreseeable alternatives have been considered;
- d. any material/significant areas where the Reporter's opinion is different from that of the water company;
- e. the response to specific questions or areas of concern raised by us;
- f. an assessment of the quality assurance procedures used in relation to the production of the business plan and supporting information;
- g. an assessment of any allocation of forecast expenditure and assumptions on transfer prices between:
 - appointed and non-appointed businesses
 - appointed business and associated companies
 - water and sewerage services (if appropriate)
 - purpose categories
- h. an assessment of the assumptions, exclusions, policies and obligations adopted by the company and the resultant expenditure needs identified in respect of the following areas:
 - capital maintenance;
 - quality enhancements and the compliance programmes;
 - enhanced service levels;
 - supply/demand balance;
 - leakage.
- i. an assessment of the methods and procedures adopted by the company for the production of the business plan in respect of the following general aspects:
 - statistical methodology;
 - identification of shortfalls in outputs;
 - serviceability and asset condition identification;
 - changes in explanatory factors;
 - the achievement of the appropriate economic balance between capital expenditure and operating expenditure solutions;

- estimating methodology;
 - standard costs
 - special circumstances claimed by the water company.
- j. an assessment and opinion of the water company assessment of the ranges of uncertainty of cost estimates and output figures and in the light of these points, any further comments on the water company's strategy.
- k. disclosure (if not fully exposed in the business plan) and assessment of the reasons for changes in information submitted previously, particularly the 2010-11 Annual Information Return.
- l. an opinion of the company's assessment of the accuracy and reliability of the expenditure data and explanatory factors.
- m. any modifications to or omissions from these requirements in respect of the Reporter's role and responsibilities.

Additional information shall be annexed to the reporter's report. This shall include:

- the organisation, structure and personnel used by the Reporter;
- the quality assurance procedures used in relation to the certification of the company submission;
- a schedule of the specific documentation that exists in support of the report;
- a summary of the meetings held, inspections carried out and audit trails followed,
- a breakdown of time and costs.

We would also like to fully understand areas of concern and disagreement between the Reporter and the company. Areas of concern or challenge identified by the Reporter shall normally be resolved with the company prior to submission. The company should address these concerns in its business plan or make the necessary changes to remove the cause for concern, all to the Reporter's satisfaction. The Reporter shall include in his General Report a summary of these concerns and challenges and how they have been resolved, together with any significant areas where agreement cannot be reached.

Further Explanations and Clarifications

The Reporter shall provide such further explanation or clarification as may reasonably be required following receipt of the submission and the Reporter's report. The Reporter should be available to respond quickly to such requests. The primary period for Regulator engagement with the company is expected to occur immediately following the company submission of the business plan to end of June 2012. Further periods where subsequent and further explanation or clarification might be expected of the Reporter will likely occur during preparation of the draft and final determinations.

There are no prior submissions applying to PC13.

Assessment of the process adopted by the company to prepare its business plan

The Reporter shall describe the process established by the company to ensure internal consistency of the business plan.