

PRICE CONTROL FOR WATER AND SEWERAGE SERVICES

PC28

**Approach Decision
18 December 2025**

About the Utility Regulator

The Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Millenium House, in the centre of Belfast. The Chief Executive and two Executive Directors lead teams in each of the main functional areas in the organisation: CEO Office; Price Controls; Networks and Energy Futures; and Markets and Consumer Protection. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

The graphic features a dark blue background with a green geometric shape in the top right corner. The Utility Regulator logo is in the top left. The content is organized into two columns. The left column contains 'OUR MISSION' and 'OUR VISION'. The right column contains 'OUR VALUES' followed by five specific values: ACCOUNTABLE, TRANSPARENT, COLLABORATIVE, DILIGENT, and RESPECTFUL.

Utility Regulator

OUR MISSION
To protect the short and long-term interests of consumers of electricity, gas and water.

OUR VISION
To ensure value and sustainability in energy and water.

OUR VALUES

ACCOUNTABLE:
We take ownership of our actions.

TRANSPARENT:
Ensuring trust through openness and honesty.

COLLABORATIVE:
Connecting and working with others for a shared purpose.

DILIGENT:
Working with care and rigour.

RESPECTFUL:
Treating everyone with dignity and fairness.

ABSTRACT

This document sets out Utility Regulator's proposed approach decision for the next water and sewerage service price control, called PC28. We published a consultation on the PC28 Approach on 5 September 2025, which ended on 31 October 2025. We have carefully considered all the feedback we received from stakeholders.

PC28 must be set in line with our statutory duties and it will determine outputs and set a regulatory allowance for the PC28 price control period, which will be sufficient to allow NI Water to fulfil its statutory obligations. This approach document sets out the background and context of the price control process and considers key issues, including how we will work with stakeholders to determine an efficient, consumer-focused package of outputs. It includes a timetable for the development of the price control, which concludes with the intended publication of a final determination document in January 2028.

AUDIENCE

The approach we are taking to PC28 is of particular relevance to stakeholders across the water and sewerage services sector, including consumers and those with responsibilities or interests in water or wastewater regulation in Northern Ireland. Our objective is to ensure inclusive engagement and transparency throughout the process.

CONSUMER IMPACT

Through the PC28 Price Control we will determine an efficient, consumer-focused package of outputs and set a revenue allowance for NI Water for the next price control period. To set this work in context, and for illustration, the revenue determined for NI Water in our last Price Control (PC21) was £2.7bn, which is recoverable through a combination of direct charges to non-domestic consumers, charges for road drainage and subsidy from Department for Infrastructure (DfI) in lieu of domestic charges.

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Executive Summary

- Utility Regulator (UR) is the economic regulator for electricity, gas and water and sewerage services in Northern Ireland. As the economic regulator for the water and wastewater sectors, UR's role is defined by The Water and Sewerage Services (Northern Ireland) Order 2006 (the Water Order).
- NI Water operates under a statutory Instrument of Appointment, which is referred to as its licence.
- UR's primary statutory duties in relation to NI Water are to protect the interests of consumers, ensure the functions of NI Water are properly carried out across Northern Ireland, and ensure that NI Water can finance those functions. Our subsidiary duties include promoting economy and efficiency on the part of NI Water and contributing to sustainable development. We refer to Articles 6 to 12 of the Water Order which set out in full the duties that govern the exercise of our functions in the water and wastewater sector.
- One of UR's roles is to set a price control to scrutinise and benchmark NI Water's expenditure plans and determine the revenue that NI Water needs to provide efficient water and wastewater services.
- NI Water is a natural monopoly and therefore subject to regulatory price control reviews. UR ensures that NI Water undertakes its role at an efficient cost for consumers. Our price controls have, over time, provided value for consumers through our independent and objective regulatory role.
- NI Water is wholly owned by the Northern Ireland Executive, with Department for Infrastructure (DfI) acting as the policy maker and shareholder for NI Water. Under the price control process, NI Water submits its business plan for the price control period. UR reviews the plan and determines whether the proposed expenditure is efficient and sufficient to deliver against its established need. During the price control period, UR monitors NI Water's performance against the determined costs, and the agreed outputs and targets.
- Price Control 2028 (PC28) will be our fifth price control for NI Water since it was set up as a government owned company in 2007. We intend that it will commence on 1 April 2028. As with Price Control 2021 (PC21), we are legally obliged to set PC28 in line with our statutory duties, so that NI Water will be in a position where it is able to meet its statutory obligations.

- Our approach to PC28 sets out our views on how we propose to meet our statutory duties with regard to the setting of the PC28 framework along with our expectations to support NI Water in its planning for our next price control.
- We consulted on our PC28 approach in September 2025, and we have carefully considered the feedback we received from stakeholders. This document sets out our PC28 Approach Decision, reflecting the outcome of the consultation and our work with stakeholders.

1. UR role in regulating NI Water

Our role in protecting consumers

- 1.1 UR is the economic regulator for electricity, gas, and water and sewerage services in Northern Ireland. We are a creature of statute, which means that we possess the powers and functions granted to us by legislation, which therefore defines and limits the nature of our role.
- 1.2 We are a non-ministerial government department accountable to Northern Ireland Assembly. We hold ourselves accountable to consumers and stakeholders by publicly consulting on our work and publishing information and reports on our decisions and NI Water's performance.
- 1.3 As the economic regulator for the water and sewerage services sectors, UR's role is defined principally by The Water and Sewerage Services (Northern Ireland) Order 2006. This is also referred to simply as the Water Order.
- 1.4 Our primary duties under the Water Order¹ are to:
 - Protect the interests of consumers.
 - Ensure that NI Water carries out its functions properly across the whole of Northern Ireland.
 - Ensure that NI Water can finance the proper performance of its functions.
- 1.5 Our subsidiary duties include promoting economy and efficiency on the part of NI Water and contributing to sustainable development. We refer to Articles 6 to 12 of the Water Order which set out in full the duties that govern the exercise of our functions in the water and wastewater sector.
- 1.6 Our four main statutory functions are:
 - **Price controls** – we set a revenue allowance that is designed to allow NI Water to fulfil its water quality, environmental and customer service objectives at the lowest reasonable overall cost. We scrutinise and benchmark NI Water's expenditure plans and determine the revenue that NI Water needs to provide efficient and effective water and wastewater services. Our current price control for NI Water is called PC21.

¹ UR's specific role in relation to water and sewage is defined in Article 6(2) of The Water and Sewerage Services (Northern Ireland) Order 2006

- **Licensing** – we oversee the water and sewerage services licence of NI Water and may modify the conditions of that licence with the consent of the company or, following a referral to Competition and Markets Authority (CMA), if CMA agrees with us that they should be modified.
- **Determining disputes and appeals** – we make determinations on issues such as new connections and sewer adoptions in cases that are referred to us.
- **Enforcement** – where we are satisfied that a breach by NI Water of a statutory duty under the Water Order or a condition of its licence is taking place or is likely to take place, we have a duty to take action to put a stop to that breach. Where we are satisfied that such a breach has occurred in the past, we have a power to impose a financial penalty on the company.

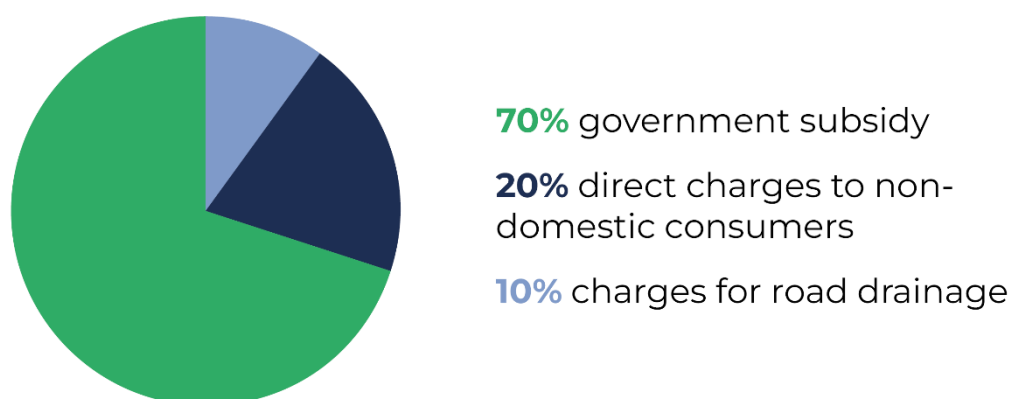
Economic price control regulation of NI Water

- 1.7 Water and sewerage services are typically delivered as natural monopolies, with a single supplier operating within a defined geographic area. In Northern Ireland, NI Water is the sole statutory water company and therefore functions as a monopoly provider.
- 1.8 In a monopoly, consumers lack the ability to switch suppliers in pursuit of better prices or improved service. Without the discipline of competitive pressures, natural monopolies may act against consumer interests by:
- Operating inefficiently and passing unnecessary costs onto consumers through higher charges.
 - Delivering substandard service levels instead of pursuing innovation or cost-effective performance improvements.
- 1.9 To mitigate these risks, independent economic regulation plays a crucial role. By setting revenue limits for monopoly service providers through a direct challenge of their proposals and subjecting them to external benchmarking of costs and service levels, regulators help ensure that these companies remain accountable and continue to act in the best interests of consumers. This process helps assess the company's relative efficiency and performance, ensuring that consumers receive value.
- 1.10 Given NI Water's monopoly status, a regulatory framework has been established to safeguard consumer interests and to ensure that the company is properly carrying out its functions for the benefit of all the residents of Northern Ireland and of the natural environment. As the economic regulator, we monitor the company's performance and

efficiency relative to its peers from other jurisdictions. Where necessary, we intervene and set challenging yet achievable targets to drive continuous improvement.

- 1.11 To ensure a strong regulatory contract is in place between UR and NI Water, we also establish a clear set of outcomes that NI Water must deliver through outputs. Outputs are measures, deliverables and activities which consumers want, whilst outcomes are the high-level objectives which benefit consumers. When selecting these outputs, we aim to strike a balance between those outcomes that are clearly defined, while allowing NI Water the flexibility it needs to deliver them in the most effective way.
- 1.12 At present, domestic consumers are not charged directly for water and sewerage services, and the decision on whether to change the current arrangements is a matter for the Northern Ireland Executive. Under the current statutory arrangements, NI Water receives government subsidy for around 70% of its funding, however, as described in paragraphs 1.13 and 1.14, there is a gap between the revenue allowed under the price control and the funding that is provided by DfI. NI Water raises around 20% of its revenue from direct charges to non-domestic customers, with the remaining 10% coming from charges for road drainage, as presented in Figure 1.1: NI Water's funding sources.

Figure 1.1: NI Water's funding sources



- 1.13 As noted above, the current amount of subsidy from DfI falls short of the full amount that UR has allowed under PC21. The extent of the funding

gap on capex investment is currently around 11%, and the funding gap is projected to increase to around 18% by the end of PC21. As a result, a backlog is building up of work that NI Water should carry out.

- 1.14 At present, we understand that a funding gap will continue into PC28. UR nonetheless is legally required to set a price control for PC28 based on what NI Water needs to meet its statutory obligations and can realistically deliver, without any regard to government funding availability. Accordingly, we propose to set a PC28 revenue allowance for NI Water in line with what it requires to meet its statutory obligations in PC28.
- 1.15 When we set price controls we do not operate in isolation but work closely with other principal water and wastewater stakeholders. The principal stakeholders we work with are NI Water, Department for Infrastructure, Consumer Council for Northern Ireland, Drinking Water Inspectorate and Northern Ireland Environment Agency.

Northern Ireland Water

- 1.16 NI Water is responsible for providing water and sewerage services in Northern Ireland. It is the only statutory water company in Northern Ireland; it operates in accordance with legislation and is subject to economic, quality and environmental regulation.
- 1.17 NI Water delivers 488 million litres of clean, safe drinking water per day to approximately 927,000 households and businesses across Northern Ireland. The company is also responsible for collecting and treating 540² million litres of wastewater per day and returning it safely to the environment.³
- 1.18 NI Water is wholly owned by DfI. DfI acts as both the sole shareholder and policy maker and provides a subsidy to cover (in part) the cost of the provision of water and sewerage services in the absence of charging for domestic consumers. In view of the proportion of NI Water's funding which comes from this departmental subsidy (more than 50%), NI Water is also classified as a non-departmental public body for public expenditure purposes.

Department for Infrastructure (DfI)

- 1.19 DfI is responsible, through the minister, for proposing any changes to the legislative framework for the water and sewerage services industry that are to be considered by the Northern Ireland Assembly. DfI is also

² 540 MI/day includes wastewater returned from households and businesses and also surface water road drainage

³ Figures are taken from NI Water's Annual Information Return for 2024-25 (AIR25)

responsible for paying a subsidy to NI Water in lieu of domestic customer charges.

- 1.20 DfI's primary function is to support the minister in developing water and sewerage policy, proposing legislation, and issuing guidance as part of a robust regulatory framework. DfI also has a shareholder function which has responsibility for overseeing the DfI shareholding in NI Water.

Consumer Council for Northern Ireland (CCNI)

- 1.21 The Consumer Council is the statutory representative for water and sewerage consumers. Its role is to ensure that policymakers take consumers into account when making decisions. It does this by providing information, undertaking education campaigns and research, and by producing relevant publications. It also helps individual consumers to resolve complaints which they have not been able to resolve directly with NI Water. Its aim for the NI water and wastewater sector is that water and sewerage services are fair, affordable and sustainable.

Drinking Water Inspectorate (DWI)

- 1.22 Drinking Water Inspectorate, which is a unit within Northern Ireland Environment Agency (NIEA), is responsible for regulating drinking water quality for public and private supplies.
- 1.23 Its role is to ensure the supply of safe and clean drinking water by monitoring its quality and advising and enforcing on remedial actions and infrastructure investment when necessary.

Northern Ireland Environment Agency (NIEA)

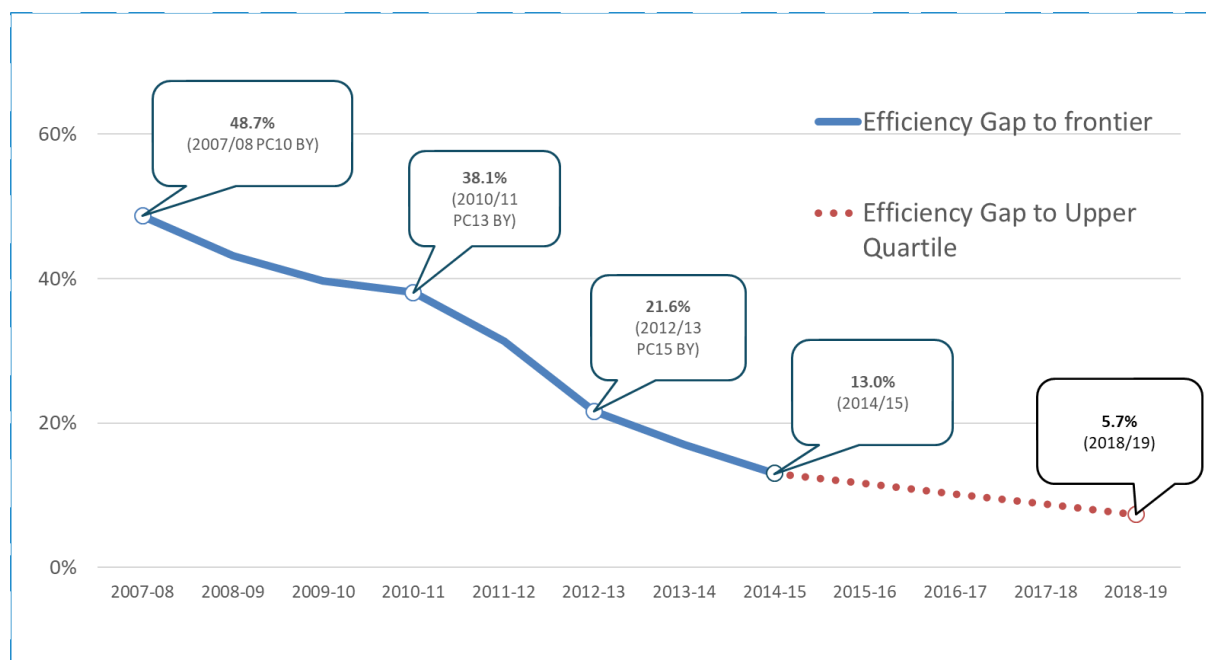
- 1.24 NIEA is an executive agency within Department of Agriculture, Environment and Rural Affairs (DAERA). The agency's primary purpose is to protect and enhance Northern Ireland's environment, and in doing so, deliver health and well-being benefits and support economic growth.
- 1.25 It takes the lead in advising on and implementing the government's environmental policy and strategy. NIEA carries out a range of activities to support the government's key themes of sustainable development, biodiversity and climate change mitigation. Amongst the primary functions of NIEA are the regulation of both abstractions of raw water and discharges of wastewater under the relevant legislation.
- 1.26 NIEA is a key contributor to DAERA's vision of 'Sustainability at the heart of a living, working, active landscape valued by everyone'. In line with NIEA's overall purpose, the agency has established its own three key priorities which are:

- Environmental regulation, protection and enforcement.
- Water quality.
- Nature recovery.

Benefits of economic regulation

- 1.27 Our NI Water price controls have, over time, provided value for consumers through our independent and objective regulatory role.
- 1.28 Our independence ensures that our regulatory decisions are based on statutory duties. We apply our experience and specialist expertise to undertake robust evidence-based assessments of NI Water's submissions and provide the necessary regulatory assurance.
- 1.29 We are supported in our work by the Reporter, who is appointed as an independent professional commentator and certifier on the regulated activities of NI Water. The Reporter provides an additional level of scrutiny and assurance to ensure that NI Water's regulatory information is consistent, comparable, reliable and accurate.
- 1.30 The Reporter's role is to assist UR to fulfil its statutory duties, largely as part of the water price control process. The Reporter's primary duty of care is to UR.
- 1.31 The Reporter undertakes technical reviews of NI Water's business plan, as required by UR, in addition to detailed reviews of NI Water's annual information returns and tariff submissions.
- 1.32 As can be seen in Figure 1.2, NI Water has made significant improvement in its opex efficiency since its formation in 2007-08, and the introduction of economic regulation at that time.

Figure 1.2: NI Water's opex efficiency gap



Source: NI Water

- 1.33 When NI Water was formed in 2007-08, the opex efficiency gap to frontier companies in England and Wales was 48.7%. By 2018-19 (the base year used for PC21) the efficiency gap to the upper quartile of water companies in England and Wales had closed to 5.7%.
- 1.34 Consumers have benefited from the cost savings delivered by continuing efficiency improvements. We estimated that operational efficiency improvements in PC21 will save customers £62m over the PC21 period.⁴
- 1.35 Our economic regulation delivers additional benefits through our work on consumer protection, particularly in setting consumer standards and promoting best practice. One of UR's main duties is to protect the interests of current and future consumers. We achieve this by setting a price control which is designed to allow NI Water to meet its service standards and consumer service commitments. In addition, we approve a suite of Codes of Practice (CoP), which outline the service promises NI Water makes to its customers. These standards and codes are informed by consumer research and enhanced data collection, ensuring they reflect what matters most to consumers. Together with the outputs from the price control process, these initiatives have consistently improved

⁴ In addition to efficiency savings, we also determined a cost of capital of 2.0% over PC21 which compares to a figure of 3.53% in PC15. This will save customers £135m in revenue. Also, the non-domestic customers have directly benefitted from our smoothing of tariffs over the price control period by avoiding a significant step increase in tariffs

service delivery throughout previous regulatory periods and will continue to drive further enhancements in the future.

- 1.36 To accompany this work, we published our Consumer Protection Programme 2024-2029 in March 2024 to enhance consumer protection for all consumers, both domestic and non-domestic, those in vulnerable circumstances and future consumers. Part of this Consumer Protection Programme is the Best Practice Programme that established principles and measures which both utility suppliers and Distribution Network Operators in Northern Ireland, including NI Water, must implement to better identify, support and protect consumers in vulnerable circumstances. This has led to a new Code of Practice for consumers in vulnerable circumstances, which is a licence requirement for NI Water. Our work on the Customer Care Registers (CCRs) will complement the CoP for Consumers in Vulnerable Circumstances and deliver considerable benefits for consumers. UR has begun to work on a single customer care register across all the regulated utilities.

NI Water price control process

- 1.37 Although the price control is set by UR, other water and wastewater stakeholders have key roles and responsibilities throughout the process. A number of public authorities in Northern Ireland have a role in defining policy or setting obligations that inform the allowances NI Water requires under the price control.
- 1.38 A planned programme of work is necessary to manage the definition and prioritisation of outputs, the exchange of information between stakeholders, and the analysis, benchmarking and determination of efficient costs and associated outputs.
- 1.39 This programme of work is defined and delivered across a number of levels, as outlined below.

Long Term Water Strategy (LTWS)

- 1.40 DfI published its 'Sustainable Water - A Long Term Water Strategy for Northern Ireland (2015-2040)' in March 2016. It provides an over-arching approach for the whole of the water sector in managing all Northern Ireland's water needs over the 25-year period.
- 1.41 The LTWS covers four key water aims to cover the key needs within a catchment:
- Provide high quality sustainable supplies of drinking water to households, industry and agriculture.

- Manage flood risk and drainage in a sustainable manner.
 - Achieve the environmental requirements of the Water Framework Directive in a sustainable manner.
 - Provide sustainable reliable water and sewerage services that meet customers' needs.
- 1.42 In addition, DfI published a strategy implementation action plan aimed at delivering the high-level proposed measures within the LTWS. DfI publishes an annual report on Sustainable Water which highlights the progress that has been achieved against the action plan and programmes to tackle areas of drinking water, flood risk, environmental requirements and water and sewerage services.
- 1.43 PC21 was set as a continuation of the process of long-term planning necessary to deliver the aims and objective of the LTWS.

Social and Environmental Guidance (SEG)

- 1.44 Under Article 7 of the Water and Sewerage Services (NI) Order 2006, DfI may from time-to-time issue guidance on UR's contribution to the attainment of any social and environmental policies set out in the guidance. This guidance is known as the SEG and is typically issued before each price control.
- 1.45 The purpose of the SEG is to provide UR with guidance on the key environmental and social policies that Minister for Infrastructure expects UR to have regard to when discharging its functions to regulate NI Water during the price control.
- 1.46 DfI issued its Planning Assumptions for PC28 on 10 July 2024. We have been engaging with DfI. DfI is yet to set out a definitive timescale for SEG.

UR approach to the price control

- 1.47 We develop our approach to the price control to set out our overall aims and the key price control framework issues which will need to be addressed. Within the approach, we set out a timeline for the delivery of the price control (see Figure 4.1).
- 1.48 During the approach phase, we reflect on outputs from any consumer engagement, and we work with the principal stakeholders to identify and prioritise the outcomes that NI Water should deliver. We also develop key process building blocks such as information requirements and detailed methodologies.

- 1.49 We publish the Approach Consultation, seeking stakeholder opinion on the approach proposals. We then publish the Approach Decision which should be used by NI Water to prepare its business plan.
- 1.50 Following our decisions on the approach to be adopted, we publish information requirements which define the information that NI Water is expected to submit within its business plan.

NI Water's business plan

- 1.51 NI Water prepares a business plan that sets out its assessment of the revenue necessary to deliver the required outputs and outcomes, ensuring alignment with UR's information requirements and adopted approach. NI Water's business plan should also have regard to the strategic priorities set out in DfI's SEG as well as the specific environmental and water quality needs identified by the quality and environmental regulators (i.e. NIEA and DWI) and consumer priorities identified through consumer engagement. NI Water has a Partnership Agreement⁵ in place with DfI and DoF to provide further clarity and accountability to its stakeholders. There is a requirement under Section 11 of the Partnership Agreement between NI Water and DfI, which includes that DfI will approve NI Water's business plan.
- 1.52 In advance of submitting its business plan, NI Water provides us with its Outline Capital Submission (OCS). This provides UR with early visibility of the nature and scale of its capital needs, so that plans can be put in place for a full and robust assessment of NI Water's business plan. UR intends to give the OCS additional consideration than we have in the past by using the OCS to commence our review of the scope within the capital programme. This will require engagement between UR, NI Water and the Reporter to understand the definition of scope within each of the capital sub-programmes, and allocation of workload across UR and the Reporter. The Reporter guidance within the PC28 Information Requirements will define the scope of work for the Reporter⁶.

UR price control draft and final determinations

- 1.53 We assess NI Water's business plan to arrive at a determination of an allowance and outputs which are efficient and deliverable by assessing and benchmarking efficiency and performance.
- 1.54 When assessing the scope, costs and outputs within NI Water's business plan, we have regard to the requirements of the SEG, and the outputs and

⁵ Previously known as the Management Statement and Finance Memorandum (MSFM).

⁶ Subject to final Reporter scope agreed with UR and NI Water.

priorities identified by the NIEA and DWI and through consumer engagement.

- 1.55 We publish and consult on a draft determination which sets out our draft decisions on the price control including costs, outputs and targets. We consider any consultation responses received and take these into account before publishing our final determination.

NI Water's monitoring plan

- 1.56 If NI Water disagrees with our final determination, it can ask us to refer it to the Competition and Markets Authority (CMA) for re-determination.
- 1.57 If NI Water accepts our final determination, it produces and publishes a monitoring plan in line with UR's information requirements. The monitoring plan represents NI Water's public statement of its commitment to the delivery of our final determination.

Monitoring the price control

- 1.58 NI Water submits an Annual Information Return (AIR) in line with information requirements for the previous financial report year. This return includes data tables and associated commentaries which allow us to assess NI Water's delivery against the requirements set within our final determination, including performance against the cost allowances and annual KPI targets that have been set. NI Water's return is also subject to independent audit by the Reporter and financial auditor, and we use the outcome of these processes to inform our assessment of the return.
- 1.59 UR's assessment of NI Water's annual performance (as submitted in its Annual information Return) is summarised and published in an annual Cost and Performance Report. This focuses on the company's delivery against KPIs and cost allowances.

Annual tariffs

- 1.60 Every year, NI Water submits a Principal Statement of its actual and forecast values for opex and capex costs, numbers of customers and inflation, which determines its proposed tariffs for the next charging year. NI Water submits its Scheme of Charges to UR at the end of January and UR reviews and approves this during February, allowing NI Water to publish its Scheme of Charges for the next financial year.

Scope for price control change

- 1.61 We typically introduce mechanisms to deal with changes during the price control period. For PC21, this included the Change Control Protocol (CCP)

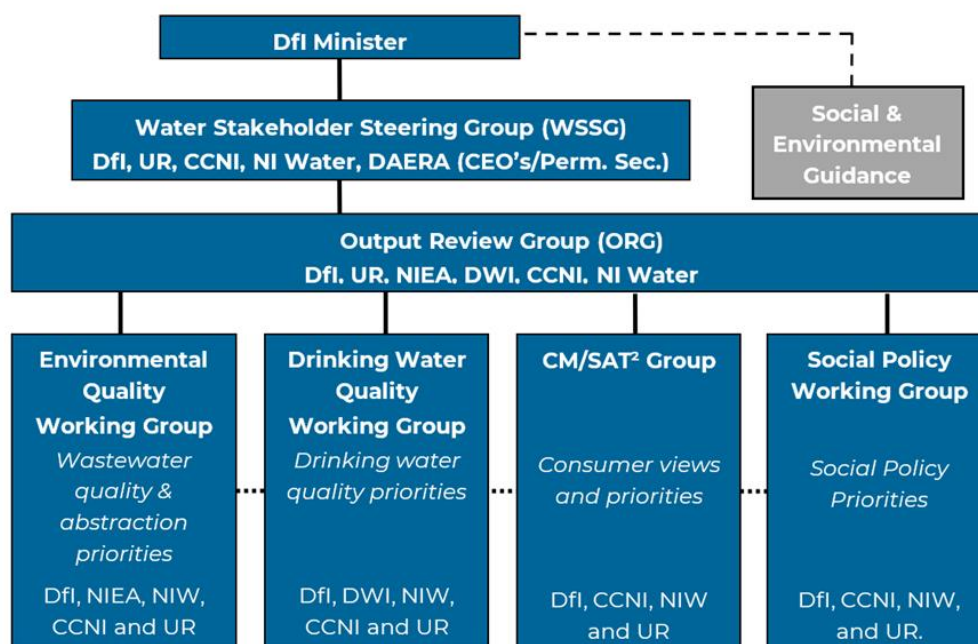
which provided a structured framework for managing changes to outputs and statutory requirements. We also undertook a Mid-Term Review (MTR) in PC15 and PC21 which provided a single opportunity to take account of material changes outside the control of the company.

- 1.62 For clarity, our intention is not to have the Memorandum of Understanding (MoU) and associated Consequent Written Agreement (CWA) as a change mechanism for PC28. These procedures were setup between UR and DfI in 2010 to allow for price control revenue to be reduced to reflect reductions in government public expenditure. In December 2023, UR wrote to NI Water and DfI confirming that our statutory duties are inconsistent with and take precedence over these documents. If UR was to act in compliance with these documents (for instance, by approving reduced output targets to meet reduced public expenditure funding levels), it would result in a breach of our statutory duties.
- 1.63 We note that we are also writing today to NI Water to reiterate the removal of the current MoU and CWA because they are outdated and no longer fit for purpose. We further note within the letter that while these sit outside the licence and are wholly independent of it, and can be varied or rescinded without any licence modification, we will however take the opportunity to remove any associated articles that are no longer applicable from the licence as part of the broader planned exercise that we have discussed with NI Water. We are currently considering a replacement MoU that will satisfy our statutory obligations (Article 11(2) of the Water Order).
- 1.64 Further detail on the change mechanism approach for PC28 is provided in Chapter 3, Section 'Managing Change'.

Role of stakeholders in our price control process

- 1.65 Our price controls have been successful in achieving significant benefit and value through our close stakeholder collaboration. We are committed to continuing to work with the principal stakeholders and other interested stakeholders to secure a successful outcome for PC28.
- 1.66 We have used the working group structure and membership shown in Figure 1.3 below in previous price controls as a key vehicle for engagement with stakeholders to inform our price controls.

Figure 1.3: PC21 and PC28 Working Groups



- 1.67 We have re-established this working group structure for PC28. The stakeholders within the PC28 Working Groups each have independent statutory roles and each should be given reasonable space to fulfil them.
- 1.68 The PC28 Working Group framework will facilitate these individual roles through cooperation and understanding of stakeholders' responsibilities with respect to PC28, creating the right working environment and relationships, whilst not overriding each organisation's individual statutory responsibilities.
- 1.69 While the groups have defined areas of responsibility, this is not restrictive. Working arrangements have been developed to ensure that issues which might cut across the work of more than one group are fully considered. The common membership across many of the groups will facilitate the flow of information and the ORG, and if necessary the WSSG, will provide common forums for resolving cross cutting issues.
- 1.70 An overview of the purpose and role of each group is as follows:
- **Water Stakeholder Steering Group (WSSG):** provides a forum for stakeholders to discuss key issues affecting the water sector at the most senior level. It also acts as an escalation body for any issues that cannot be resolved by ORG.

- **Output Review Group (ORG):** brings stakeholders together to discuss key issues affecting the water sector, with a particular focus on delivery against the requirements of our price control determination. During the price control process, it acts as an escalation body for any issues raised by the price control working groups considering the priorities for specific areas of investment.
- **Environmental Quality Working Group:** responsible for identifying environmental priorities for the price control period.
- **Drinking Quality Working Group:** responsible for identifying Drinking Water priorities for the price control period.
- **Customer Measures and Satisfaction (CM/SAT) Group:** considers the priorities for the price control period from a consumer output perspective and also decides whether consumer engagement needs to be undertaken, and if so, what form it should take.
- **Social Policy Working Group:** responsible for identifying priorities in other policy areas for the price control period.

Since the MoU and CWA have now been revoked, the WSSG and ORG groups will now exist separately of the MoU and they are not going to fulfil the purpose envisaged by the CWA.

Consultation Responses

- 1.71 We consulted on our approach to gather views from across the water sector and any other organisation(s) or individual(s) interested in the water sector. We want to thank all of those who participated in the consultation. These perspectives have helped us finalise our approach. **Annex C** (PC28 Approach Consultation - Summary of Responses) provides a summary of the stakeholder views and the UR response to each. It also provides an overview of how and where we have taken account of the consultation responses in our Approach Decision.

2. PC28 regulatory expectations and themes

- 2.1 This section provides an overview of our expectations for PC28, building upon the work undertaken in PC21. We set out high-level water sector trends and challenges for PC28, and our PC28 regulatory expectations to support NI Water in meeting these challenges in line with its statutory duties.

NI Water price control evolution

- 2.2 Our initial price controls (PC10 and PC13) were shorter and focused on closing the efficiency and performance gap between NI Water and its comparator companies. Our third price control (PC15) began to address longer term sustainability within a six-year price control period. This strategic approach aimed to promote long-term planning and delivery of the aims and policy objectives of the Long-Term Water Strategy 'Sustainable Water', which was developed by DfI working with other statutory stakeholders. PC21 provided an opportunity for NI Water to deliver on the long-term planning developed through the PC15 process.
- 2.3 We set PC21 revenues at the efficient level of need which NI Water required to meet its statutory duties, taking into account what was reasonably deliverable during a six-year window (see below). In doing so, we provided revenue allowances which would facilitate investment of £2.08 billion (in nominal terms) over the six-year period.
- 2.4 In setting our PC21 revenues in this way, we recognised the concept of deliverability. This means that in setting the PC21 revenues, we accounted for the fact that there were limits to the ability of NI Water (and the wider supply chain) to scale-up infrastructure investment to the required level during PC21, and that the further investment would have to be carried out over other price control periods to address all of the investment needs that had built up over time.
- 2.5 PC21 has been extended by one year to provide additional time to allow us to work constructively with key stakeholders to develop our approach to the next water price control and support NI Water in developing its business plan in a complex environment⁷. We are using a simple extrapolation to set the regulatory requirements for this extension year, which include outputs, revenue and price limits. UR will continue to

⁷ The 'complex environment' mostly relates to uncertainty around the delivery of PC21 outputs due to funding constraints which commenced in 2023-24.

monitor NI Water against the agreed PC21 outputs in line with our statutory duties.

Challenges and opportunities for PC28

- 2.6 NI Water is the only water and wastewater operator in Northern Ireland, and it faces some of the same challenges to those experienced in Great Britain and Ireland, as well as some unique challenges and opportunities.

Climate change

- 2.7 Climate change has increasingly become a challenge to all water companies. Climate change is giving rise to more unpredictable and extreme weather. The prevalence of more regular and extreme storms will, most likely, put further strain on NI Water's sewerage and wastewater infrastructure that has to deal with both foul and surface water. Climate change preparedness is likely to result in the need for increased expenditure on wastewater infrastructure.
- 2.8 NI Water will need to decide how it will mitigate against and adapt to a changing climate. The Northern Ireland Assembly enacted the Climate Change Act (Northern Ireland) in June 2022 and set targets for reduction of greenhouse gas emissions until 2050. NI Water published its Climate Change Strategy in March 2023, with a target of being net zero for the energy it uses by 2030 and overall net zero for emissions by 2040 from the 2020/21 baseline.
- 2.9 Given that NI Water is Northern Ireland's biggest user of electricity and the second largest landowner in NI, the company has a significant role to play in reducing carbon emissions.
- 2.10 NI Water's adaptation challenge will need to consider the impact of increasing temperatures on water abstraction and the impact of intense rainfall on drainage and flooding of homes, businesses and critical infrastructure. NI Water should consider how it will provide adequate resilience within its systems with respect to water supplies and wastewater services.
- 2.11 Good progress has been made during PC21 on preparing for the climate challenge through initiatives on energy reduction and recovery, renewables, electric vehicles, and sustainable land management. However, uncertainty remains around NI Water's contribution to NI's carbon emissions targets and the timescale to achieve them.
- 2.12 Some progress has also been made on improving the resilience of water infrastructure by delivering on actions from previous Water Resource Plans. The Water Resource and Supply Resilience Plan published in 2025,

provides a 50-year planning horizon (2020-2070) and incorporates the latest climate change predictions. We expect NI Water to continue delivering on the proposed actions within this plan.

- 2.13 Climate change resilience and contributing to net zero emissions remain key challenges for NI Water for PC28.

Ageing infrastructure

- 2.14 NI Water has an increasingly ageing asset base which includes watermains, sewers, and treatment facilities with a gross replacement cost of £5.7bn⁸. See Annex A (Approach to Asset Maintenance) for additional details. NI Water needs to ensure that these assets are maintained and replaced when appropriate to provide an acceptable level of service to consumers and ensure that it is meeting its environmental obligations.
- 2.15 Making sure that assets continue to provide satisfactory levels of service throughout the price control period will be of great importance. Maintaining the public's confidence in levels of service regarding issues such as internal/external flooding, interruptions to supply, pollution incidents and leakage will be important for PC28 given the current asset base condition.
- 2.16 Some uncertainty may exist over asset maintenance needs. PC28 provides NI Water with the opportunity to consider the use of new asset health techniques (e.g. asset condition surveys and performance assessments) to inform future investment needs. Given the limitations on what can be delivered during a single price control, it would be important to assess the risks involved in deferring investment to a later price control.

Capacity for growth

- 2.17 NI Water also needs to provide capacity across its networks to deliver an adequate supply of clean safe drinking water to consumers and return their wastewater safely to the environment. The network needs to keep pace with development so that it can support economic growth. Capacity is therefore required for existing demands and growth in housing, businesses and critical/public infrastructure.
- 2.18 Capacity constraints across the wastewater network have resulted in more than 100 areas where the wastewater system is operating near or above design capacity, being deemed to have development constraints. Within these areas, without any increases in capacity, the connection of

⁸ Sourced from NI Water's Annual Information Return 2024 (Table 25, gross replacement cost for water and wastewater assets).

new houses and businesses to the network would result in increasing unsatisfactory discharges of untreated wastewater to the environment.

- 2.19 NI Water faces a significant challenge to increase the capacity of the wastewater network and treatment works to facilitate this development and support economic growth and prosperity for the region. We expect NI Water to continue to provide the required capacity through the infrastructure investment allowed for within the price control process, and through engagement with other stakeholders, including developers and other delivery mechanisms.
- 2.20 Alternative sources of funding potentially include voluntary developer contributions, subject to review by DfI. However, consideration of developer contributions does not form part of our price control and therefore it is a matter for NI Water and its shareholder. DfI's recent consultation document, 'Developer Contributions for Wastewater Infrastructure'⁹ stated that 'It is important at this juncture to reiterate that neither option for introducing developer contributions will result in the level of funding that is required to address the historical underfunding of wastewater infrastructure investment in Northern Ireland. However, either option will result in additional funding which will help to release capacity to enable wastewater connections.'

Compliance reform

- 2.21 New policy and legislative requirements coming into effect before and possibly during the PC28 period have the potential to cause further challenges and opportunities for NI Water.
- 2.22 New wastewater reform legislation is incorporating flow compliance requirements. This may put additional pressure on both opex and capex budgets during the price control, due to the requirement to purchase flow monitors, upgrade or purchase new IT systems, as well as potentially requiring resources to install and maintain the equipment.
- 2.23 Water companies in England and Wales are required by Environment Agency to be fully compliant with the new legislation by 2026. NI Water will have the benefit of the knowledge, experience and lessons learned across England, Wales and Scotland ahead of the compliance deadline in Northern Ireland.
- 2.24 New legislation around discharge standards for large wastewater treatment works, leading to tighter standards for ammonia will also pose a challenge. This will require additional investment in wastewater treatment to lower the nutrient levels. It is also expected that the

⁹ Developer Contributions for Wastewater Infrastructure - Consultation Document.

Drinking Water Directive Recast will introduce higher standards on drinking water, which may also pose a challenge and may lead to additional cost pressures.

- 2.25 Whilst potentially having cost implications, the improved standards that will arise from compliance reform (and the Drinking Water Directive Recast) also provide an opportunity to improve the service that NI Water delivers to customers whilst enhancing the environment.

PPP contracts ending

- 2.26 All the NI Water sites remaining under Public Private Partnership (PPP) will be handed back to NI Water ownership during PC28. This includes the remaining water treatment facilities (Alpha) and wastewater treatment facilities (Omega).
- 2.27 The Omega PPP contract, which includes the sludge incinerator facility at Belfast Wastewater Treatment Works at Duncrue Street, is ending in 2032. NI Water will need to work with its stakeholders to explore the most suitable technology to ensure that a sludge solution is in place by this time. An opportunity also exists in considering that sewage sludge is a bioresource.
- 2.28 We expect NI Water to take a leadership role in developing the bioresources market¹⁰ and exploiting the opportunities it creates. We also expect NI Water to seek opportunities for a shared island approach where practical (e.g. shared facilities) to address its current and future needs.

Sustainable land management

- 2.29 As Northern Ireland's second largest landowner, NI Water is responsible for managing its lands in a sustainable way. Increasing threats from climate change include wildfires and risks from pests, pathogens and invasive species.
- 2.30 This large land base also provides opportunities to make improvements to the environment and to sequester carbon. Previous price controls have seen initiatives such as peatland restoration, tree planting and sustainable land management.
- 2.31 We expect NI Water to continue its initiatives on sustainable catchment area management and wider land management to increase the ability of

¹⁰ Developing the bioresources market is ultimately a policy decision led by Department of Agriculture, Environment and Rural Affairs and Department for the Economy, with support from DfI and NI Water.

its land to reduce emissions. This should include its cross-border approach to catchment management.

Cost volatility

- 2.32 Widespread cost volatility and global economic shocks were felt by NI Water during PC21. The increased cost of energy caused significant opex pressures during PC21 given that NI Water is the largest consumer of electricity in Northern Ireland.
- 2.33 We are engaging with NI Water to build uncertainty mechanisms into the price control, where appropriate, to counter the impact of any future economic shocks.
- 2.34 Other challenges and opportunities include:
- Ensuring that NI Water remains resilient to an increasing threat of cyber-attacks.
 - Contributing to the circular economy by extracting value from existing assets and byproducts.
 - Adopting a multi-capitals approach to decision making where natural and social capital are used to make more sustainable investment decisions and deliver better outcomes for consumers and the environment.
 - Adopting a ‘fast follower’ approach to new technologies and innovations, learning lessons from other UK jurisdictions and globally.
 - Developing on-site energy generation where it aligns with the close-coupled policy provided by UR for PC10, represents value for money (e.g. an acceptable payback period) and is in the interest of water consumers.

PC28 regulatory principles

- 2.35 In a letter to DfI, NI Water, NIEA, DWI and CCNI on 4 December 2024, we set out our key principles to help inform NI Water’s business planning for PC28.
- 2.36 These principles were aimed at providing some direction in advance of the publication of our approach to PC28.
- 2.37 Our key principles for PC28 are:

NI Water should prepare a business plan which sets out what is essential for the company to meet its statutory obligations. It should be an efficient and deliverable investment plan which meets established needs and is affordable from a tariff perspective.

2.38 By way of clarifying these principles:

- Meeting statutory obligations in a way which meets established needs means NI Water delivering water and wastewater services in a way that complies with relevant legislation it must adhere to.
- Deliverable means what is achievable in terms of the capacity of the NI market and NI Water's supply chain to efficiently deliver its business plan. Therefore, deliverability is not concerned with public funding availability.
- Affordability for PC28 means the level of efficient investment that can be recovered from consumers within the period to affordable levels. Our initial view based on evidence of what is potentially required for PC28 and beyond is that we would expect this to mean an above-zero tariff rise (in real terms) for PC28.

2.39 It is important to note that our overarching principle to set a revenue allowance for NI Water in line with what it requires to meet its statutory obligations in PC28 is consistent with how the revenue allowance for PC21 was set. As above, we further note that there is a requirement under the partnership agreement which requires that DfI will approve NI Water's business plan.

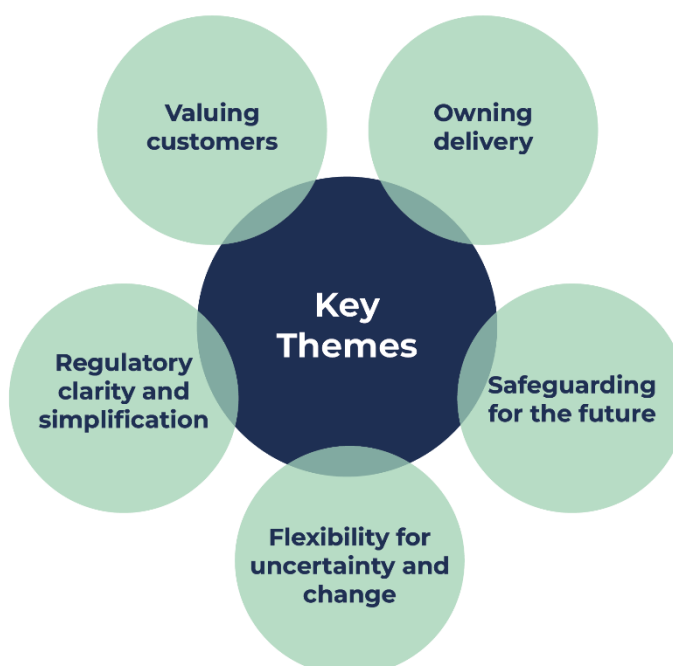
PC28 approach themes

2.40 For PC28, we will review all aspects of NI Water's business and develop objectives that will work towards addressing the needs of the environment and consumers, in line with statutory obligations.

2.41 We will continue to encourage long-term strategic thinking and planning for the years beyond PC28 while focusing on what is deliverable in the five or six year price control period.

2.42 The key themes underpinning our approach to PC28 are shown in Figure 2.1.

Figure 2.1: Key themes underpinning PC28 approach



Valuing customers

- 2.43 In recent years, NI Water has made significant improvements in the data it holds on its assets, its performance and the impact that service failure can have on consumers. It has also carried out trials, investigations and projects which have helped develop understanding, knowledge and experience of the delivery of more innovative, sustainable solutions.
- 2.44 Overall, there is an opportunity to ensure a clear line of sight between the PC28 price control and the Programme for Government targets, NI Water's Customer Promises and NI Water's Customer Charter.
- 2.45 PC28 also provides an opportunity to ensure that these measures build on continuing engagement with consumers and feedback from consumers through their day-to-day interaction with the company.

Owning delivery

- 2.46 We will require NI Water to have full ownership of its business plan and delivery throughout PC28.
- 2.47 In preparation for the price control, NI Water should engage with stakeholders through the established working groups to develop its plans. However, we expect NI Water to determine the best way to carry out its business activities.

- 2.48 We expect NI Water to publish a public facing summary document, forecasting the likely impacts on prices and subsidy from the planned levels of consumer services for the PC28 period on its website. This could take the format of a financial picture and a monitoring plan table, but it is for NI Water to decide the best means of communicating its plans to consumers.
- 2.49 We expect that NI Water's business plan will take account of stakeholder views, consumer priorities and all relevant legislation in an efficient and deliverable manner that is aimed towards delivering what customers require now and into the future, in line with the Long-Term Water Strategy.

a) Assurance

- 2.50 NI Water, as a government owned company (GoCo), is a statutory trading body owned by central government but operating under company legislation. This means that the Company's corporate governance structure and compliance is with the Companies Act 2006 and the principles of good corporate governance as set out in the UK Corporate Governance Code, where appropriate.
- 2.51 As a Non-Departmental Public Body (NDPB) sponsored by DfI, the company's sole shareholder, the company takes into consideration the relevant governance provisions in Department of Finance (DoF) guidance entitled 'Managing Public Money Northern Ireland'. The Company has a Partnership Agreement¹¹ in place with DfI and DoF to provide further clarity and accountability to its stakeholders. There is a requirement under Section 11 of the Partnership Agreement between NI Water and DfI, which includes that DfI will approve NI Water's business plan.
- 2.52 NI Water must build stakeholder confidence in its business plan and the information that underpins it. Assurance can help build that confidence. Assurance is an important part of an organisation's corporate governance, which relates to the rules, practices and processes by which a company is directed and controlled.
- 2.53 It is standard practice for economic regulators to place additional expectations on companies over and above those set out in the UK Corporate Governance Code, recognising that to set price limits, the economic regulator must have confidence in the business plan and the information contained within it. An economic regulator may also set expectations for the assurance of the information a company submits

¹¹ Previously known as the Management Statement and Finance Memorandum (MSFM).

annually, which is used to monitor performance against the financial forecasts and requirements outlined in the Final Determination.

- 2.54 In their response to the consultation, stakeholders' support for our proposal on assurance was mixed. Responses from NI Water and CEF were similar in that they were concerned that it may not be feasible for DfI to agree a plan outside its affordable funding scenario, and they could not see how DfI's endorsement of the plan would be meaningful. Furthermore, NI Water requested, if its Board is asked to provide assurance, that UR reconsiders the extent and scope of the Reporter's role. CCNI, however, agreed with UR's proposal to seek NI Water Board assurance, citing that it would improve regulatory oversight and align with UK water regulation.
- 2.55 We consider that ownership of the plan and the information contained in it are with NI Water. It is also important to highlight ownership of the business plan by NI Water's Board, and ownership of the assurance process for that plan.
- 2.56 During the price control, NI Water is required to submit its Annual Integrated Report & Accounts, comprising the strategic report, governance and statutory accounts for the previous financial year, which is signed off by the NI Water Board. This is accompanied by NI Water's Regulatory Accounts statement, which is signed off by the NI Water CEO and includes:
- 'Historical cost financial statement' which is subject to an independent financial audit; and,
 - 'Director's certificate of going concern' which is required under Condition F6A of the Licence. This is a statement the company 'does [or does not] have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities and in particular the investment programme necessary to fulfil NI Water's obligations under the Appointment'.
- 2.57 In considering the different options for providing the necessary assurance for NI Water's business plan, we examined the approaches used by other economic regulators, including:

- Ofwat, in PR24, required the boards of the England and Wales water companies to assure five broad areas (namely long-term delivery strategies, affordability, cost and outcomes, risk and return, and customer engagement). Ofwat defined financial resilience as the extent to which an organisation's financial arrangements enable it to avoid, cope with and recover from disruption, whether that disruption is driven internally or externally to the company. It stated that company boards are responsible for ensuring their company is financially resilient over the price control period and beyond, and it required each company to provide Board Assurance Statements that confirm this in their business plans. Companies were expected to demonstrate in their business plans how they would continue to finance their operations and planned investments, and to explain the steps they intended to take to maintain financial resilience.
- WICS¹², in SRC27, required the board of Scottish Water to provide a Board Assurance Statement on the integrity of the data/commentary within the business plan and external assurance. There were no specific requirements within the Board Assurance Statement that the funding would be available to meet Ministerial Objectives; however, the Final Methodology places expectations on the company in regard to aligning charging with the Final Determination.
- ORR¹³, in PR23, required Network Rail to provide assurance on the deliverability of its plan (both supply chain delivery and internal delivery) and evidence as to how the forecast costs and outcomes had been assured. ORR provides advice to the Secretary of State and Scottish Ministers to inform their decision on the Statement of Funds Available, which in turn informs the High-Level Output Specification stating what Network Rail is to deliver. As such, there is no specific requirement for the board to provide its assurance on available funding within its business plan.

- 2.58 Based on this review of precedents in GB, we are seeking a Board Assurance Statement for PC28 to the effect that NI Water's PC28 business plan aligns with NI Water's statutory obligations and that the Board Assurance Statement should accompany submission of the business plan.
- 2.59 We will continue to consider the extent and scope of the Reporter's role in providing scrutiny and assurance for PC28, however this does not negate the requirement for the Board of NI Water to provide its assurance of NI

¹² Water Industry Commission for Scotland, the economic regulator of Scottish Water.

¹³ Office of Rail and Road, the economic and safety regulator for Network Rail and National Highways

Water's business plan given the separate purpose this serves compared to the role of the Reporter.

- 2.60 It is our expectation that Department for Infrastructure, as NI Water shareholder, will be in agreement with any Business Plan submitted by NI Water. As we note above, there is a requirement under Section 11 of the Partnership Agreement which requires that DfI will approve NI Water's business plan.

Long-term planning and safeguarding for the future

- 2.61 The future of Northern Ireland's water and sewerage services are fundamental to the development of our country. New legislative requirements have been introduced since the beginning of PC21, such as Climate Change Act (Northern Ireland) 2022; as well as policy frameworks, such as 10x Economy: An Economic Vision (May 2021), and Draft Circular Economy Strategy (2023). There is more focus than ever on issues related to climate change and developing the economy within Northern Ireland.
- 2.62 As such, we expect NI Water to detail in its business plan how it will address these emerging issues by putting more focus on carbon emissions and using more sustainable technologies, where possible. NI Water is the largest consumer of electricity in Northern Ireland and utilising sustainable materials and technologies will help NI Water to reduce overall carbon emissions. Protecting future customers by investing in assets during PC28 will also be key.
- 2.63 We expect NI Water to consider the Draft Climate Action Plan (CAP) 2023-2027 recently published by DAERA, and any subsequent CAP documents, and to consider in its business plan how it can achieve alignment with climate legislation and guidance. New ways of thinking will be required to mitigate and adapt to the challenge of climate change by considering ways to address flooding risk and improve water resilience.
- 2.64 In PC21 we advocated the benefits of long-term planning to deliver sustainable holistic solutions and set in place price control processes which would enable that objective to be achieved. As with PC21, we consider that the PC28 should continue to:
- Clearly identify what consumers want and identify their priorities for water and sewerage services and show how these will be delivered and over what timescale.
 - Provide a strong foundation for the long-term funding of water and sewerage services, delivering long-term improvement in service to consumers.

- Convert the outcomes identified in the Long-Term Water Strategy to clear medium-term goals and milestones which can be delivered by NI Water.
- Challenge NI Water to improve its efficiency and performance at an achievable and sustainable rate.
- Promote sustainable action to deliver affordable protection of water quality, the environment and natural resources through a holistic catchment-based approach to water and sewerage provision.
- Embed climate change adaption and mitigation in the delivery of existing services and the development of future infrastructure.
- Promote long-term planning and risk management in the business plan, which will enable continuity of investment between years and between price control periods.
- Assess the 'right' long-term level of investment in key areas such as asset maintenance, water main replacement, sewerage renovation, reducing flooding risk and demand management.
- Recognise the need for a flexible approach to asset delivery which will allow time to study, develop, plan and deliver sustainable, integrated, interventions with contributions from a range of stakeholders (including working and partnering with other water sector organisation and the community/voluntary sector) where this offers the best solution.
- Assist proportionate regulation, including maximising the advantages of one-to-one regulation¹⁴, through the use of shared data sets which are used consistently and provide a clear, common point of reference for all stakeholders in the development and delivery of the price control.

2.65 We propose to set a price control duration for PC28 which supports long-term planning. Chapter 3, Section 'Structure, form and duration of price control' contains further details.

Flexibility for uncertainty and change

2.66 Throughout PC21, we have seen how circumstances can change within the regulatory price control period. World economic and political changes can affect NI Water's execution of its functions. Geopolitical factors at the

¹⁴ One-to-one regulation means that UR regulates the one single monopoly company (NI Water).

early stages of PC21 led to widespread increases in costs of energy and availability of some consumables used by NI Water on a regular basis.

- 2.67 It is important that a degree of flexibility is built into the price control to allow for uncertainty and change. New legislation has been brought into effect during PC21 for climate change and we must ensure the price control has enough flexibility built in if further legislative changes are enacted during PC28. We must also be mindful of required project changes in the case of asset failures or enforcement action.
- 2.68 We are open to uncertainty mechanisms which could facilitate flexibility within the price control whilst remaining in line with our regulatory principle to set PC28 in line with what NI Water requires to meet its statutory obligations. We set out our approach proposals for managing change in Chapter 3 particularly under the Sections: 'Setting the price control allowances and outputs' and 'Managing Change'.

Regulatory clarity and simplification

- 2.69 We realise there is a significant regulatory burden associated with the preparation of the documents required throughout the price control process. Therefore, it is important that our approach to the price control remains appropriate within this context.
- 2.70 We expect NI Water to prepare a business plan that aligns with URs key principles. We are however open to ways to limit the regulatory burden and we have included some suggestions in Chapter 3, Section 'Setting the price control allowances and outputs'.
- 2.71 We are aiming to simplify the annual reporting process for NI Water to align more closely with that used by Ofwat¹⁵ and WICS. We believe this will assist in enabling a clearer understanding of NI Water's performance when benchmarking against water companies in England and Wales, while also reducing the regulatory burden for NI Water.
- 2.72 We also recognise that the water regulation arrangements can be complex to understand for stakeholders. We, therefore, propose to simplify our financial framework (see Chapter 3, Section 'Finance framework').

¹⁵ Also referred to as Water Services Regulation Authority, the economic regulator for water and sewerage companies in England and Wales.

3. PC28 approach to key building block areas

Structure, form and duration of price control

Revenue Adjusted Price Cap

- 3.1 NI Water operates under a Revenue Adjusted Price Cap. This means that we set the maximum prices that NI Water can charge for its various services which when applied to forecast demand, will recover the target revenue. Deviations between actual and forecast demand will then be fully reflected in deviations between actual and target revenues. The price cap that we set for any price control period is adjusted to reflect under or over recoveries accrued in the previous period.
- 3.2 We propose to continue to set NI Water's prices on the Revenue Adjusted Price Cap basis for PC28.
- 3.3 As set out Chapter 2, Section 'PC28 regulatory principles', we intend to continue to set NI Water's revenue allowance in line with our statutory duties. This means that the revenues we set at PC28 will be at the level of established need for both non-domestic and domestic consumers.
- 3.4 The majority (70%) of NI Water's revenues are in the form of a government subsidy in lieu of domestic water charges. This means that domestic customers are not charged for the NI Water revenues that we approve, which are attributed to them.
- 3.5 However, we do set tariffs for non-domestic customers, and so we recognise that there could be a concern that non-domestic customers pay a charge in PC28 that is not fully reflective of what is delivered, should there be a public expenditure funding shortfall. This could primarily be related to increases in capital enhancement revenue allowance which is recovered through non-domestic tariffs.
- 3.6 Capital enhancement expenditure is recovered more slowly than opex and capital maintenance through tariffs, so we expect the impact to potentially not be material for PC28 at least.
- 3.7 We also note above that our price cap is a maximum tariff. This means that while we will set the tariffs at a level in line with what NI Water requires, the tariff is ultimately a cap. It allows money to be recovered from customers, rather than mandating it. UR is neutral as to the source, or mix of sources, of funding by which NI Water recovers the revenue that

it requires to meet its obligations. NI Water has the option every year to not recover the full price cap within its customer tariffs.

Duration of price control

- 3.8 The duration of our PC15 and PC21 price controls was six years. This aligns with the duration used by WICS for Scottish Water, whereas Ofwat has been using a five-year cycle for England and Wales.
- 3.9 We are of the view that anything less than five years is too short. This is based on the rationale that it creates an unacceptably high regulatory burden on all stakeholders, particularly NI Water and is not conducive to the long-term planning typically required within the water industry. We are however also of the view that anything greater than six years is too long, as forecasting this far ahead is difficult, particularly during times of uncertainty.
- 3.10 We propose that a duration of five or six years would provide NI Water with the best opportunity to accommodate long-term planning, achieve efficiencies and deliver some of its larger scale projects, whilst limiting regulatory burden.
- 3.11 We consider five years to be the optimum duration for PC28. This has the benefit of aligning with Ofwat's five-year cycle, whilst maintaining a three-year offset to minimise resource clash moving forward. This resource clash primarily relates to the availability of consultancy services; however it is also relevant to the demand for contracting resources.
- 3.12 We are also proposing not to undertake a Mid-Term Review (MTR) re-opener in PC28 and instead are considering other more flexible mechanisms for uncertainty and change (see Chapter 3 sections: 'Setting the price control allowances and outputs', and 'Managing Change').
- 3.13 Following the consultation, UR has decided that PC28 will be five-year duration with no MTR. We will continue to engage with the company and stakeholders on uncertainty mechanisms to be used for PC28.

Setting the price control allowances and outputs

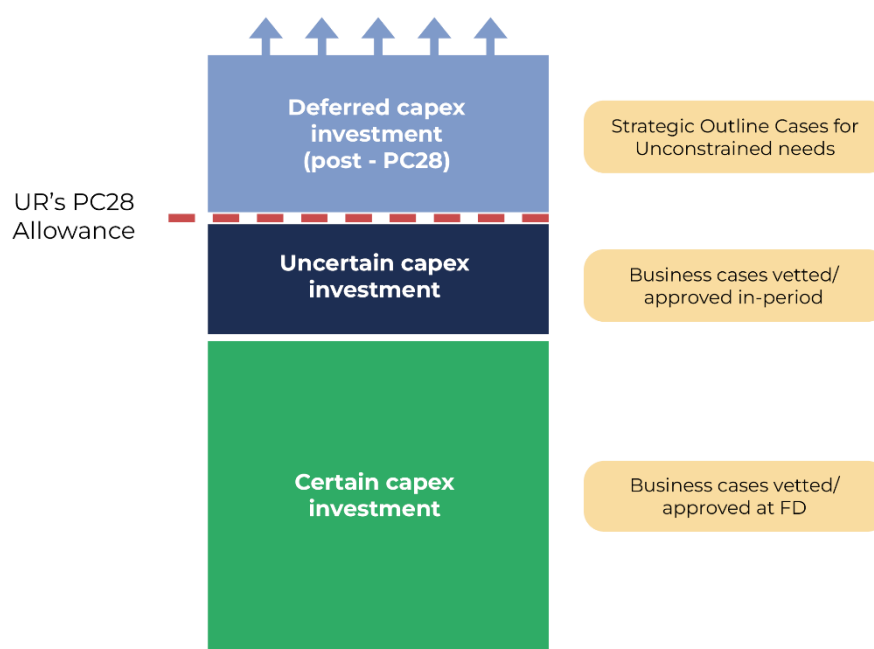
- 3.14 This section sets out our initial guidance on how we will set the price control allowances and outputs to support NI Water's business plan preparation and overarching guidance on how we will scrutinise and set our PC28 Final Determination allowances.
- 3.15 As explained in Chapter 2, Section 'PC28 regulatory principles', we plan to set PC28 in a similar way to PC21, in that the revenue allowances at the PC28 Final Determination shall be in line with what NI Water requires to

meet its statutory obligations, subject to what is realistically deliverable within the price control period. However, we recognise that within this PC28 determined revenue allowance, there may be uncertainty over the level of need for some business cases that we receive from NI Water.

- 3.16 We will, therefore, adopt an appropriate approach to minimise regulatory burden whilst encouraging NI Water to provide a robust and comprehensive evidence base. We consider that this is aligned with our approach to PC21.
- 3.17 We expect NI Water to develop a business plan containing less detailed business cases for scope-uncertain projects alongside more detailed and fully developed business cases for scope-certain projects and lines of work. We will then apply an appropriate level of scrutiny accordingly. This approach worked well for the scope uncertainty that existed within the wastewater enhancement programme in the PC21 business plan, and we are minded to request a similar submission for PC28.
- 3.18 This will mean that for those scope-uncertain projects, where the information required for business case submission has not been fully developed ahead of PC28, but can be further developed within the PC28 period, a more detailed submission can be brought to UR when it is available to be vetted further during the PC28 period.
- 3.19 However, as we are basing our PC28 Final Determination baseline on the revenue allowance that is required for NI Water to meet its statutory obligations (subject to deliverability, affordability and efficiency) we will include these initial costs as a final determination allowance.
- 3.20 This approach will limit the regulatory burden for NI Water and other key stakeholders in the preparation and scrutiny of business cases, whilst remaining sufficiently robust.
- 3.21 Figure 3.1 presents what we consider to be an appropriate approach to business planning for PC28. It is based on two categories of investment for PC28:
- **Certain Investment** – For projects that have been scoped and costed, we will require NI Water to submit detailed and fully developed business cases that can be scrutinised for scope, cost and need. These projects will be fully vetted by UR ahead of the Draft Determination and costs determined at that stage. Business cases must outline how the investment meets UR’s key principles for PC28 and include consideration of all relevant legislative requirements.

- Uncertain Investment** – For projects that are less certain in terms of scope and cost, we will ask NI Water to submit business cases in line with the approach adopted for similar sub-programmes in PC21. These business cases will be initially vetted by UR for indicative costs and need and can be further scrutinised by UR within period when they are able to be determined to be certain. A similar approach was used in PC21 for the scope uncertain wastewater enhancement sub-programmes of work. Business cases will also be required to outline how the investment meets UR's key principles for PC28 and include consideration for all relevant legislative requirements.

Figure 3.1: – Appropriate approach to business planning for PC28



- 3.22 NI Water should consider how to prepare a business plan that meets UR's key principles in a way that will provide flexibility for uncertainty and any change that may occur during the price control period.
- 3.23 It is likely that there will be a very significant investment need that cannot be delivered within the PC28 period due to deliverability (i.e. the level of investment that can be delivered efficiently during the period by the supply chain). NI Water will need to continue to consider the capacity of the supply chain when developing its business plan.
- 3.24 It should be acknowledged by all stakeholders that it will take multiple price controls to address all of NI Water's needs. NI Water should therefore consider ways to deal with residual risk of investment that has

to be deferred to future price controls. NI Water, within its consultation response, concurred that it will take multiple price controls to address all established needs and it stated that risks arising will be considered as part of its overall plan.

Outputs and Outcomes

Delivering for consumers and the environment

- 3.25 Delivering the best possible outcomes for customers and the environment is central to both UR and NI Water's corporate strategies. For PC28, we aim to engage fully with stakeholders to ensure that consumer's priorities for water and sewerage services are met. We will require NI Water to put forward a business plan that establishes how it will deliver services that consumers need now and how it plans to build on this for the future.
- 3.26 Our aim for PC28 is for NI Water to deliver efficient water and sewerage services to consumers based around their needs and priorities, and to protect the environment for the benefit of all residents of Northern Ireland. During PC21, there was a particular focus on consumer engagement and the focus throughout the planning process for PC28 will be to use all available outputs from this consumer engagement to better understand and deliver against consumer needs and priorities. This will continue to be facilitated through the Customer Measures and Satisfaction (CM/SAT) working group.
- 3.27 The CM/SAT group in PC21 identified some new customer related outputs that NI Water has gathered data on. Some of these, such as the Net Promotor Score for non-domestic customers were discussed in the PC21 Mid-Term Review. Any potential new customer-centred measures and targets will be discussed, developed and, if possible, agreed at the CM/SAT group for inclusion in NI Water's PC28 business plan submission.
- 3.28 NI Water continues to monitor and report consumer metrics through the Annual Information Returns. Some of these metrics are already a good indicator of the priorities of customers in Northern Ireland, such as Total Contacts and First Point of Contact Resolution. In addition, NI Water continues to engage with consumers through annual satisfaction and advocacy surveys.
- 3.29 We do not envisage that there will have been any material change in the views and priorities of consumers for PC28. This view is based on the outcome of previous repeat surveys. The CM/SAT group has therefore agreed that no large-scale consumer research is required, but should any

areas of concern be identified, topic specific research can be requested by CM/SAT members for consideration by the group.

Standards of Service

- 3.30 Articles 66 and 150 of the Water Order make provision for the creation of regulations by the department to introduce Guaranteed Standards of Service or Overall Standards of Service. UR has a function under Articles 69 and 152 of the Water Order to prepare draft regulations by making a valid application to DfI. Before making an application, UR must first commission research to discover the views of a representative sample of persons likely to be affected and consider the results.
- 3.31 Guaranteed Standards of Service (GSS) set out prescribed service levels which individual consumers can expect from their provider, including compensatory payment requirements when the provider fails to adhere to the standards, subject to certain exemptions. GSS apply to GB water companies and gas and electricity providers in NI (UR is working on extending and enhancing their application).
- 3.32 Overall Standards of Service (OSS) set out general requirements that apply to the overall consumer base. OSS refers to the levels of quality and consistency that consumers can expect from a service provider. These standards define expectations for how a service should be delivered, encompassing aspects like timeliness, accuracy and suitability as well as how consumers are treated. The benefits of introducing GSS or OSS are that it would provide a defined level of service provision that NI Water would need to adhere to achieve consumer satisfaction as well as a legally defined performance level that it can be measured against. Adopting GSS or OSS would be beneficial as they are intended to supplement the statutory general duties placed on NI Water and this would provide further protection for water and sewerage customers.
- 3.33 UR proposes to conduct research and bring forward an application for regulations, but when (or whether) the regulations might be made by DfI, and what the regulations might say, is currently uncertain and likely to remain so for some time.

Outcomes

- 3.34 The purpose of investing in water and sewerage services is to maintain and improve the services that consumers receive. Ultimately consumers experience service as a series of outcomes, including:
- Whether tap water is safe to drink and is acceptable in terms of taste, odour and appearance.

- Whether the supply of tap water is reliable, including during extreme operating conditions such as severe weather.
- Whether surface and foul wastewater is drained effectively and members of the public or businesses are not affected directly by flooding or a reasonable fear that they might be affected by flooding from sewers.
- Whether the company responds quickly when things go wrong, is able to resolve the underlying problem satisfactorily and keeps the consumer or wider public informed while doing so.

3.35 NI Water also has duty as a statutory undertaker and a public interest role in delivering environmental outcomes. This includes the impact of water abstraction on the relevant water bodies (upland reservoirs, rivers and loughs) and the pollution that can be caused by intermittent and continuous discharges of wastewater to the environment.

Types of output and performance commitments

3.36 NI Water will deliver a series of outputs which aim to secure the outcomes consumers want and that the environment requires. We will assess the outputs in PC28 in line with the level of investment. These outputs form part of an overall package which the company must deliver.

3.37 Having taken account of the views of consumers in the development of the NI Water business plan, it is important that clear outputs and performance commitments are made for the PC28 period. In PC21 we used the following output categories:

- **Service level outputs** – which measure the level of service that consumers experience.
- **Nominated outputs** – which are aimed at achieving specific environmental discharge or drinking water standards that are defined by the quality regulators or required by virtue of the Water Order.
- **General activities** – such as a rate of replacement of water mains, where it was not possible to establish a clear link to service level outputs in the short term.

- **Development outputs** – to develop NI Water’s capability and introduce new techniques which are important for the long-term improvement of the service. Clear development outputs can support the cycle of long-term planning, allowing time to carry out studies, work with stakeholders on integrated solutions and assess innovative solutions. We encourage NI Water to continue to make use of development outputs which are well defined, time bounded and have the support of stakeholders. There may be a need to define more clearly what is a development output and what is defined as a project.
- 3.38 We intend to continue using the same outputs and serviceability indicators for PC28 as used in PC21. As in PC15 and PC21, NI Water may wish to put forward new or amended outputs for PC28 relating to new challenges being faced (e.g. new connections accepted/refused) and some changes may be useful to align NI Water's data with Ofwat data for comparison purposes. We will consider any new or amended outputs proposed by NI Water within its business plan.
- 3.39 We are considering the annual reporting requirements for NI Water, for better alignment with the reporting system used by Ofwat and WICS. This will aid in benchmarking NI Water's annual reporting information and performance against the equivalent data for England and Wales and Scotland.
- 3.40 The working groups described in Chapter 1, Section 'Role of stakeholders in our price control process and the water industry principal stakeholders' Output Review Group (ORG) will provide forums for the review of the development of challenging performance commitments for PC28.
- 3.41 We understand that additions or reductions of public expenditure, which can fund outputs determined by our price control, can be subject to annual government monitoring rounds. In recent monitoring rounds, DfI provided additional public expenditure funding on the condition it was ring-fenced for a specific type of activity related to certain price control outputs.
- 3.42 It is important to clarify that the price control cannot be used as a vehicle for prioritising legislative requirements so in making our regulatory decisions, as was the case for PC21, we will not determine whether certain outputs are higher priority than others based on public funding allocations. All current statutory obligations must therefore be treated as equally binding by NI Water when developing its business plan to comply with its statutory duties. All legislative obligations should be fully funded on the basis of reasonable and efficient proposals put forward by NI Water within the guiding principles that we have set for the price control.

Sustainable delivery

- 3.43 In PC15 and PC21 we developed our regulatory framework to reflect the fact that NI Water was operating in a changing environment. During these periods we saw that rising consumer expectations, improved understanding, new European Directives and an awareness of the economic value of a clean environment (and the potential impacts of climate change) would drive the need for higher performance and discharge standards.
- 3.44 New ways of working are necessary to ensure that these improvements can be delivered in ways that are not disproportionately expensive or have significant carbon impacts. We noted in PC15 and PC21 that it was unlikely that the best solutions to these emerging issues would be provided by NI Water alone. We noted that the opportunity exists to move from asset-based solutions that are delivered in isolation by NI Water, to integrated, sustainable solutions developed by a range of stakeholders with a shared interest in the outcomes and which carry shared risk.
- 3.45 PC28 provides NI Water with the opportunity to incorporate climate change and net zero decisions into its investment planning. NI Water should continue to engage with the relevant department (e.g. Department of Agriculture, Environment and Rural Affairs (DAERA) and Department for the Economy) to understand government priorities and targets relating to climate change and net zero.
- 3.46 NI Water should consider how climate change should be treated alongside other statutory requirements within the water price control noting that all current statutory legislation must be treated equally.
- 3.47 We encourage NI Water to use best practice techniques for considering carbon and net zero emissions within its investment decisions. We acknowledge that the use of sustainable solutions may, however, be limited due to practical constraints around land availability, strict compliance targets and uncertainty of treatment outcomes. We expect NI Water to engage with the relevant stakeholders, including the environmental and water quality regulators, to put forward sustainable solutions in its business plan where these are practical and cost effective.
- 3.48 At PC21, we asked NI Water to set out its plans to maintain the continuity of investment into PC28. In its business plan, we expect NI Water to set out how it has developed sustainable outcomes for PC28 through the assessments and planning carried out in PC21. We expect NI Water to continue with its PC21 development outputs and propose new development outputs where it considers further work is necessary to allow time to develop more sustainable and holistic solutions for implementation in the next price control period, i.e. potentially Price

Control 2033. NI Water should set out the scope and timelines for the completion of this work.

Non-core activities

- 3.49 Within previous price controls (dating back to PC10) an allowance was made for close-coupled renewable power generation which provided acceptable pay-back, met the energy needs of the site and was cost efficient. For PC28, we will continue to consider this type of investment.

PC28 output licence obligations and wider price control framework obligations

- 3.50 NI Water operates under a statutory Instrument of Appointment, which is referred to as its licence. When the licence was first published in preparation for the formation of NI Water, it was largely based on the licences that existed for the water and sewerage companies in England and Wales. In the intervening period, a limited number of essential updates have been made to address some specific requirements and the latest version, incorporating a new condition associated with a code of practice for vulnerable customers, was published on 25 November 2024.
- 3.51 UR's opinion is that NI Water's licence would benefit from a review against the current water licences in GB, as well as the NI gas and electricity licences, to determine if it needs any modifications. This would also ensure that it is fully reflective of current regulatory best practice and the company's particular operating circumstances.
- 3.52 One potential area of modification we consulted on is in relation to NI Water outputs. The NI Water licence only makes reference to service targets which no longer exist in name within our current regulatory processes. We proposed in the PC28 Approach Consultation our intention to review NI Water's licence to make outputs legally binding.
- 3.53 In their response to the consultation, some stakeholders noted benefits from making outputs legally binding but also raised potential concerns. NI Water was concerned that it may expose NI Water to financial penalties, further exacerbating funding shortfalls. CEF believed it is only realistic if the public funding for a fulsome PC28 is guaranteed at the outset, which is neither realistic nor feasible given the current public funding approach. CCNI recognised that making outputs binding could strengthen legal accountability but cautioned against introducing complexity associated with price control frameworks in GB (citing the Cunliffe Review). CCNI believed that consideration should be given to the wider statutory framework within which NI Water operates and the legal obligations it must meet.

- 3.54 Having considered responses, our position is that certain outputs for PC28 should be made legally binding.
- 3.55 We are considering further review of the Ofwat model of performance commitments used for the E&W companies,¹⁶ and further review of Ofgem's approach to making outputs binding.¹⁷ If we make PC28 outputs legally binding we would be conscious of tailoring and making it fit, as far as possible, within our existing model of water outputs regulation to avoid any undue complexity. We are conscious of recommendations from the GB Cunliffe review, in this regard.
- 3.56 Making PC28 outputs binding would mean giving the outputs legal underpinning in the licence and making price control allowances contingent, at least to some extent, on their successful delivery. This would mean that a consequence of NI Water's failure to deliver outputs would result in a financial penalty, which is not necessarily a fine, but potentially a reduction in the price control allowance for that output. This aims to act as an incentive for the company to deliver the agreed outputs. While we note stakeholder concerns that it may not be realistic to make outputs binding given the public funding environment, we reiterate that we are setting PC28 in line with our statutory obligations and so public funding reductions cannot influence our PC28 positions.
- 3.57 We note that making outputs binding may require licence modifications. For example, this could be similar to Part 3A of the Ofwat licences. However, we would also like to further review Ofgem's approach to making outputs legally binding.
- 3.58 It should be further noted that the Ofwat model has performance commitments which fall outside the scope of the licence provisions (e.g. reputationally binding). Further work is required to categorise outputs into those that would fall within the licence provisions (i.e. legally binding that would incur financial consequences) and those that fall outside the licence (i.e. reputationally binding which do not incur financial consequences).
- 3.59 As the business owner, we consider that NI Water is best placed to identify and categorise which outputs should be legally binding. We therefore ask NI Water to set out in its business plan which outputs it seeks to be legally bound to in return for the revenue it is proposing to be allowed for the outputs in question.

¹⁶ Ofwat licences for E&W companies include a Part 3A 'Performance Measure Adjustments' under Condition B. This provides the performance commitments for water and sewerage activities under the following activities; Retail, Water Resources, Bioresources and Network Plus.

¹⁷ Ofgem sets minimum standards of performance through the introduction of Licence Obligations.

- 3.60 The timing of licence modifications also needs to be considered and completed in advance of the of the PC28 Final Determination. We further note that, with respect to the proposals on outputs, we would seek to finalise making the licence modifications in advance of NI Water submitting its business plan. We will clarify our timetable as soon as possible during Phase 1 of the PC28 programme, with NI Water, but we anticipate starting this process in early 2026.
- 3.61 At this point, we consider that the licence modification would not identify each output to be made binding but instead would allow for an enabling-type power for NI Water to seek outputs in return for revenue allowances. In this sense, the nature of the licence modification should not necessarily prevent or delay NI Water from identifying and categorising which outputs it seeks to be bound to in return for revenue, within in its business plan.
- 3.62 Another potential area for modification is to reflect within the NI Water licence other price control framework decisions we make as part of PC28. For example, we are proposing to change the inflation basis to CPIH. These types of changes could be reflected within the licence, as is standard practice within our other UR network licences as a result of price control decisions (e.g. electricity and gas network price controls). Again, we note that the timing of licence modifications also needs to be considered and completed in advance of the of the PC28 Final Determination.

Capital Base Maintenance assessment

Capital Base Maintenance - overarching assessment

- 3.63 Base maintenance (sometimes referred to as asset maintenance or capital maintenance) is the investment necessary to replace assets which have reached the end of their useful life, or to provide an alternative means to support continued service delivery. Base maintenance accounted for approximately 40% of the entire capex allowance set for PC21 including that set as part of our Mid-Term Review.
- 3.64 As part of the preparation for PC15, we published our approach to asset maintenance which set out our view on some of the techniques that NI Water could use to develop a robust assessment of asset maintenance investment, building on steadily improving asset performance and cost data. These techniques range from:
- Backward looking techniques such as historical cost and serviceability trends.

- The targeted development of bottom-up risk-based assessments to understand the link between asset performance and service, predict future trends and identify the best way to maintain or improve service (including capital and operational interventions).
- 3.65 For PC15, NI Water was not able to provide a robust assessment of future asset maintenance expenditure based on risk to service. In the absence of this assessment, we estimated a reasonable allowance for asset investment based on an econometric comparison with asset maintenance investment in England and Wales. PC15 also included a development output covering a plan for asset maintenance.
- 3.66 For PC21, we published an update of our approach to asset maintenance. We also built capex econometric models that would allow comparative benchmarking with England and Wales companies. Using these models we estimated a reasonable allowance for asset maintenance investment.
- 3.67 Our early analysis of the PC21 econometric models, using recent data, indicates that the robustness of the models has deteriorated. Also, NI Water has expressed concern that:
- Base maintenance may have been historically underfunded and it is of the opinion that looking back at the historical spend on base maintenance is a poor indicator of future base investment needs.
 - Reductions of the PC21 allowed revenue as a result of public expenditure budget constraints has caused the deferment of enhancement expenditure resulting in the need for additional base maintenance (i.e. to 'sweat the assets').
- 3.68 We noted that the Independent Water Commissions report (Sir Jon Cunliffe, July 2025), which reviewed water regulation in England and Wales, was somewhat critical of Ofwat's reliance on econometric models.
- 3.69 We consider it would be prudent to consider alternative methods for assessing costs for PC28. This may include comparative benchmarking of NI Water's key serviceability measures with Ofwat's data and a bottom-up assessment of base maintenance needs based on NI Water's existing asset health data (i.e. any sufficiently robust condition and performance assessments).
- 3.70 We are open to considering a hybrid approach which would triangulate the outputs from the econometric modelling using an appropriate weighting, trends of historical costs, serviceability comparators and any robust and evidenced bottom-up assessment of costs.
- 3.71 However, in line with our theme on 'Owning delivery', we consider that ultimately it is a matter for NI Water, within its business plan, to

demonstrate the right level of asset maintenance investment which balances the risk to long-term service delivery with the cost to consumers.

- 3.72 We are aware of the challenges associated with the close linkage between enhancement and base investment. We will need to consider the impacts of funding constraints during PC21. For example, changes in incidental or consequential base investment arising from a reduction in the enhancement investment.
- 3.73 For PC28, we have updated our approach to asset maintenance which is included as Annex A. It is largely based on the PC21 approach and retains the eight techniques available for assessing asset maintenance requirements. It also considers the initial outputs from our work to consider the ongoing applicability of the econometric modelling.
- 3.74 One of the techniques available is a depreciation approach based on modern equivalent asset valuation (MEAV). Following initial consideration of MEAV for PC21, it was later discounted due to its complexity in relation to NI Water's level of maturity and the considerable burden involved. Whilst the option of undertaking a MEAV still exists, we do not expect NI Water to propose submitting a MEAV for PC28 for similar reasons.
- 3.75 In addition to setting the allowances for capital base maintenance, UR will need to consider the best method of setting an efficiency challenge for capital maintenance.
- 3.76 Public expenditure funding decisions have resulted in NI Water having to change the balance of enhancement and capital maintenance expenditure when compared to the PC21 allowances, so it may be challenging to establish whether this was efficient from a top-down econometric assessment of historic capital maintenance expenditure. The econometric models will not capture the context of these funding decisions, and as a result might not estimate NI Water's total capital base maintenance requirements accurately. This in turn will affect the efficiency scores estimated by the models, in that they might not accurately reflect NI Water's true relative efficiency.
- 3.77 The change in capital base maintenance expenditure when compared to the allowances means we will also need to consider how best to structure the allowance for PC28. For example, one issue to consider is how best to ensure the regulatory allowance appropriately reflects NI Water's consequential capital maintenance needs. Public expenditure funding constraints on enhancement expenditure mean that NI Water may not have incurred the full consequential capital maintenance expenditure expected at the PC21 Final Determinations. This is an additional complexity which is unlikely to be captured by top-down econometric models.

- 3.78 During PC21, a Cost Assessment Working Group (CAWG) was formed between UR and NI Water to evaluate economic elements of the price control. The process worked well during the determination phase of PC21 and allowed both parties to come to a common understanding and agreement on the efficiency benchmarking.
- 3.79 As part of PC28, UR intends to re-form the CAWG, which will support development of the methodologies for assessing the capex allowance for base maintenance and any efficiency challenge. This group was re-formed for PC28 during the approach phase and is currently meeting on a regular basis.

Serviceability Indicators

- 3.80 Serviceability is a measure of the capability of an asset to provide a service. In practice it is assessed by trending a series of defined asset performance indicators (such as the frequency of pipe bursts) and service indicators (such as the frequency of interruption to supply). It is important to consider data trends in the round to determine whether asset serviceability is stable, improving, deteriorating or marginal. The approach focuses attention on how the asset delivers service to consumers.
- 3.81 The serviceability indicators which were set for PC21, allowed UR to monitor NI Water's annual performance against metrics such as water quality exceedances, mains bursts and sewer collapses. These indicators also supported decisions on future base maintenance needs. We intend to apply the same serviceability indicators in PC28 that were used for PC21. If NI Water puts forward any new serviceability indicators within its business plan, UR will consider them during the determination process.

Asset Management Accreditation

- 3.82 We expect NI Water, within its business plan, to outline its accreditation to standards for asset management systems (e.g. ISO 55001) or its progress towards such standards. We are open to introducing processes which will demonstrate that NI Water takes ownership and accountability for delivery and is spending the allowances made by UR efficiently.

Capital Enhancement assessment

- 3.83 Capital enhancement investment delivers a permanent improvement to the present level of service to existing customers, provides additional capacity for new customers at the existing service level or meets more demanding quality obligations. It increases the asset value and/or extends its useful life. Enhancement accounts for approximately 60% of the entire

capex allowance set for PC21 including that set as part of our Mid-Term Review.

- 3.84 In PC21, the allowance for capex enhancement was set using a bottom-up assessment of costs, rather than using econometric models. This is because econometric modelling relies on historical expenditure and effectively assumes that investment will continue at broadly constant levels, unless explanatory variables are included to account for specific trends. Enhancement investment is bespoke to the needs of the company during the price control period. This can result in waves of investment which cannot be assessed using historical investment nor can it be easily benchmarked against comparator companies. Enhancement investment can only be derived through a bottom-up assessment of the individual company's investment needs, priorities and costs.
- 3.85 Our intention is to continue to use a bottom-up approach to assess the level of investment in capital enhancement for PC28.
- 3.86 It will be for NI Water to determine the level of investment needed for enhancement projects to be included in the PC28 business plan submission to meet statutory obligations and established need.
- 3.87 We intend to assess the enhancement investment by reviewing the business plan submission by individual sub-programmes, and individual schemes where appropriate, which should include a split between base maintenance and enhancement. Business cases will be scrutinised to determine the appropriateness of the need, scope and proportion of base and enhancement and will be challenged accordingly for cost efficiency.
- 3.88 Capex efficiency will be considered through UR's reviews of the sub-programmes and individual business cases.
- 3.89 An independent Reporter will also conduct an audit of the business plan and individual business cases, including the capital programme.

Opex assessment

Opex - overarching assessment

- 3.90 Operating expenditure (opex) refers to the day to day running costs required to run its business and provide water and wastewater services. In PC21, opex represented around 42% of NI Water's expenditure.
- 3.91 In successive price controls from PC10 onwards, improvements in service and greater efficiency¹⁸ have been delivered. This has helped minimise

¹⁸ By efficiency we mean delivery of the same (or better) levels of service for less money

costs, both in terms of non-domestic bills and demands on public expenditure, and enhanced the service delivered to consumers. Overall, we expect NI Water to subject itself to a challenging but achievable target.

3.92 We typically take several steps in assessing opex efficiency. For PC28 we will expect NI Water to justify and provide robust evidence in its business plan across the following areas:

- **Establish NI Water's baseline opex:** baseline expenditure is an assessment of the true opex cost of providing water and sewerage services in the base year.
- **Adjustments to NI Water's baseline opex:** we consider claims for new opex arising out of changes to the company's operating environment. These changes might include requirements to meet new legal standards or improve drinking water and/or treatment standards. We expect NI Water to demonstrate the expenditure is new (new obligations or specified standards in service) and outside of management control. We have also considered other costs (such as transformation costs which are significant and related to modernisation and opex from capex) in the past.
- **Relative efficiency gap:** we use econometric modelling to benchmark and assess the efficiency gap between NI Water and comparator companies. The statistical models used to assess the scope for catch-up efficiency cannot account for all of a company's operating characteristics. As such, the catch-up challenge can be adjusted if the company has a unique operating characteristic not included in the models that adversely impacts operating costs. NI Water will need to justify these special factors which need to meet certain criteria (e.g. materiality and management mitigation of impact).
- **Frontier shift (productivity).** We recognise that even the leading performing company (i.e. the frontier) will continue to improve its operating efficiency in future years (e.g. due to technological improvements) and we will take account of this in our assessments.

- **Real Price Effects (RPEs)** Whilst not strictly speaking part of the opex efficiency assessment, we recognise NI Water may face input capital and operating cost price inflation which is different to economy wide inflation (measured through RPI in PC21 but we now propose using CPIH for PC28 - see Sections 3.145 to 3.148 below). NI Water will need to justify its approach and provide evidence for RPEs. We will then combine our frontier shift productivity analysis to provide an allowance which reflects RPEs minus frontier shift productivity (this combined calculation is referred to as Frontier Shift).

3.93 The CAWG, which has been re-formed for PC28 and is currently meeting on a regular basis, will aim to develop the optimum methods for assessing NI Water's opex and determining the appropriate efficiency challenge. The CAWG will also allow further consideration of the above approach steps to help inform NI Water's business plan. However, we set out some issues below, which based on our initial analysis, may merit particular focus.

Relative efficiency gap and energy costs

- 3.94 A key issue is the potential impact of rising energy costs on the relative efficiency gap for PC28.
- 3.95 As part of the pre-approach to the PC28 price control, we have commissioned our economic consultants CEPA to run the econometric opex efficiency models designed in PC21, with the latest data from NI Water covering the period 2019/20 to 2023/24.
- 3.96 Overall, the inclusion of the latest outturn data does not materially affect the stability of the opex models for both water and wastewater. All models continue to demonstrate strong explanatory power. However, the inclusion of these additional years of data results in an increase in the opex efficiency gap seen in PC21, due to both increasing energy costs and other opex.
- 3.97 In the PC21 Final Determination, we used the average water efficiency gap estimated over the last 6 years of the sample period and the average wastewater efficiency gap estimated over the last 3 years. Given the impact of unforeseen energy cost spikes and other opex costs over the last few years, we intend to revisit the historical sample period used in the econometric modelling.
- 3.98 The opex efficiency gap could, for example, be estimated over the last 5 years of the sample period, aligning our approach with that carried out by Ofwat for the England and Wales water companies, or it could be considered over the full sample period from 2013/14.

- 3.99 Estimating the efficiency gap over the entire sample period would reduce the impact of the energy price crisis on the estimated efficiency scores. It would also however place greater weight on less relevant historical data from over 10 years ago, thus providing a less up-to-date picture of NI Water's opex efficiency.
- 3.100 An alternative would be to use a two-pronged approach which triangulates the efficiency gap estimated over the last five years of the sample period and the efficiency gap estimated over the last two years as a means of mitigating the impact of the energy price crisis.
- 3.101 We also note that there will be additional years of outturn data available when we set NI Water's draft allowances for PC28. Therefore, as energy costs continue to normalise, the estimated efficiency gap at the draft determinations may increase or decrease accordingly.

Real Price Effects (RPEs)

- 3.102 This section outlines our views on how to deal with RPEs more generally, and uncertainty for power (electricity) RPEs during the price control period specifically.
- 3.103 In its response to the consultation, NI Water believed that the ex-post adjustment for RPEs should not be limited to electricity prices and that any change in input prices resulting in a material change in costs should also be reflected in an 'in-period' adjustment to price limits.
- 3.104 PC21 reflected that four input cost categories – Labour; Materials, Plant, and Equipment (MPE); Chemicals; and Power– required an ex-ante RPE component to be considered in the allowance we set, to reflect variations in input price growth versus RPI inflation.
- 3.105 We consider that the approach we took in PC21 remains largely appropriate for PC28 for Labour, MPE and Chemicals. Our current position is that NI Water should be provided with an allowance which includes for an ex-ante RPE adjustment for these categories, but in-period input price risks should remain with NI Water, as in previous price controls. But we welcome evidence from NI Water to the contrary.
- 3.106 We will consider the balance of risk placed on NI Water as part of the broader price control, given that NI Water has limited financial flexibility across years and must manage costs within its annual expenditure allowance.
- 3.107 At PC21, we also made a RPE adjustment for energy as part of PC21 based on an ex-ante forecast of energy costs. However, we recognise that during PC21 the escalation of energy costs was an issue that needed to be

addressed in the PC21 MTR as a result of NI Water's request for additional energy costs due to the increase in energy prices. Similarly, in response to Ofwat's Price Review 2024 (PR24) determination, water and sewerage companies in England and Wales highlighted concerns around Ofwat's benchmarking of efficient energy costs due to the reliance on historical information which did not reflect prevailing energy prices. For NI Water, an additional factor to consider is that this issue could prove more substantial in NI given that NI Water cannot hedge its energy costs as the England and Wales companies do.

- 3.108 UR is currently reviewing the RPE process from PC21 and assessing any forward-looking challenges for PC28. For example, in relation to energy costs, there is a key interaction with the choice of base year for the opex efficiency assessment as part of the overall opex allowance assessment. The energy price crisis has increased the estimated opex efficiency gap in recent years. However, as further output data is provided in the years following the energy crisis peak, the impact of the inflated energy costs on the efficiency gap will change.
- 3.109 Given the substantial energy cost increases over the PC21 period to date and the uncertainty around forecast energy prices in the current geopolitical environment, we are reviewing potential adjustment mechanisms in conjunction with NI Water to allow for material changes from the standard ex-ante treatment of RPEs.
- 3.110 Given the public expenditure funding situation of NI Water, we understand that NI Water would prefer to have a PC28 mechanism which can deal with uncertain energy costs, which can be actioned in-period to ease pressure on public expenditure. While we do not take account of Government public expenditure funding decisions as part of our price control, we recognise there may be the need for implementing a means of managing in-period energy RPE uncertainty. We will work with NI Water through our CAWG to determine an approach for this area.
- 3.111 Further detail on the approach to RPEs can be found in Annex B - PC28: Approach to Real Price Effects, which has been provided by our economic consultants, CEPA.
- 3.112 Following the consultation, UR will consider any additional RPE proposals and continue to discuss within the CAWG.

Independent external assurance

- 3.113 Similar to PC21, we plan to use the Reporter to support our assessment through the provision of external assurance and expertise, both during the determination stage and within the price control period. The scope for

the Reporter's work will be considered and agreed so that it informs the determination stage and allows us to set an appropriate ex-ante cost allowance.

- 3.114 The Reporter is likely to be asked to undertake a deep-dive assessment of the scope of capital schemes, capital cost estimates, unit rates, cost curves and NI Water's costing tools, and this would be a continuation of the cost analysis done for PC21 as well as during and following the PC21 MTR. We will define an appropriate level of rigour and scrutiny for the Reporter's work in our information requirements to help inform the determination phase.
- 3.115 The Reporter will also be asked to consider the appropriateness of certain output targets proposed by the company.

Managing Change

- 3.116 The uncertainty mechanisms available during previous price controls included the Memorandum of Understanding/Consequential Written Agreement (MoU/CWA), Mid Term Review (MTR) and Change Control Protocol (CCP).
- 3.117 In its response to the consultation, NI Water expressed its concern that the removal of MoU/CWA (and changes to the CCP) creates for the company significant delivery and reputational risks, as described in Annex C. Other stakeholders did not comment specifically on the removal of the MoU and CWA.
- 3.118 The MoU and CWA were set up in 2010 as a mechanism to deal with uncertainty over multi-year public expenditure funding that is required during a price control period. UR's position remains that its statutory duties (as stated in Chapter 1, Section 'Our role in protecting consumers') take precedence over these documents and UR cannot reduce the price control outputs to match reduced public expenditure funding levels. We note that UR is no longer party to the MoU and CWA as previously advised to stakeholders and so the documents are no longer operational.
- 3.119 We note that we are also writing today to NI Water to reiterate the removal of the MoU and CWA. We further note within the letter that while these sit outside the licence and are wholly independent of it, and can be varied or rescinded without any licence modification, we will however take the opportunity to remove any associated articles that are no longer applicable from the licence as part of the broader planned exercise that we have discussed with NI Water previously.
- 3.120 Therefore, the change mechanisms that existed in the (now revoked) MoU and CWA will not exist for PC28.

- 3.121 The MTR within PC15 and PC21 provided a single opportunity to take account of material changes outside the control of the company. Its scope was limited to maintaining the opportunities and incentives of the 6-year plan. The MTR addressed uncertainty and changes in the wastewater enhancement programme and a limited number of outputs, and some significant RPE requests. It did, however, result in a high regulatory burden for NI Water.
- 3.122 We therefore consider that there may be merit in providing more effective and agile mechanisms to address uncertainty and change. We will continue to engage with NI Water and other stakeholders to develop a targeted yet flexible approach.
- 3.123 As set out in Chapter 3, Section 'Real Price Effects (RPEs)' we see value in further exploring the merit for an uncertainty mechanism for energy RPEs.
- 3.124 We also see value in a mechanism where NI Water would submit scope uncertain business cases for investment (see Chapter 3, Sub-section 'UR PC28 allowances and NI Water business plan preparation' on setting regulatory cost allowances with respect to uncertain costs). Conceptually this could be similar to how we treated scope uncertain costs in PC21 which were determined as part of the MTR, but we would need to consider the frequency of submissions. For example, whether this should be as and when they are required (i.e. when scope is certain), or as an annual submission, or another frequency yet to be determined.
- 3.125 The CCP provides a structured framework for managing change and sets out the procedures that the key stakeholders shall follow to control changes to outputs. It has been used successfully during previous price controls to deal with changes in statutory requirements. These changes can be triggered by any NI Water key stakeholder, typically an enforcement action by an environmental or quality regulator. The changes are taken to the Output Review Group (ORG) for discussion with efficient costs subsequently determined by UR.
- 3.126 To date the CCP has primarily worked by substituting in absolutely necessary higher priority investment in place of lower priority investment of a similar value. The intention is largely to ensure that NI Water delivers the outputs it has been allocated revenue for at the final determination stage of the price control. Accordingly, we expect the CCP to be used on an exceptional basis by NI Water and other stakeholders in PC28. We plan to update the existing CCP for PC28 to ensure it is in line with our regulatory principles, as set out in Chapter 2, Section 'PC28 regulatory principles'. The CCP document is being reviewed to remove references to MoU / CWA and to ensure it is independent from public expenditure

funding, in line with our statutory obligations. We do not envisage changes to the main scenarios requiring the application of the CCP, for example change in outputs (not public expenditure funding related), change in priority, new objectives and ORG agreement. We will also consider any changes to CCP to align with any licence modifications to achieve legally binding outputs for PC28.

- 3.127 UR maintains its PC21 position that it cannot reduce the outputs to suit a reduced funding scenario. This means the CCP, or indeed any other uncertainty mechanism, cannot be used to reduce outputs to suit a reduced funding level. We will consider the stakeholder suggestions as part of the wider workstream to address uncertainty and RPEs throughout PC28.

Monitoring delivery

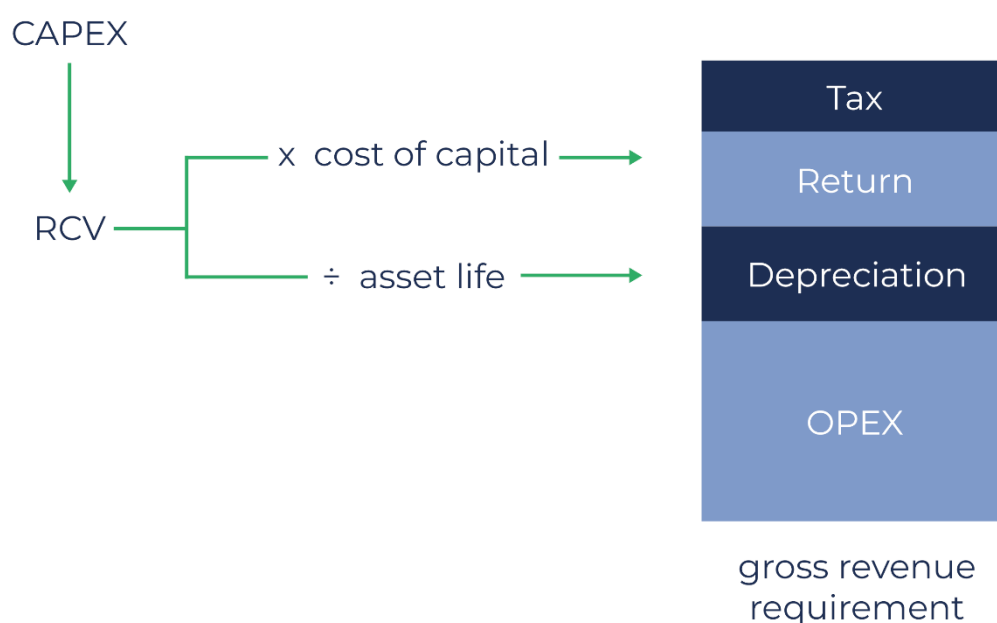
- 3.128 UR has a role to monitor NI Water's delivery of the outputs which will be agreed for PC28 (see Chapter 3, Sub-section 'Types of output and performance commitments'). Similar to PC21, we will monitor the outputs agreed for PC28, irrespective of any public expenditure funding constraints.
- 3.129 For PC28 we propose continuing with the existing monitoring requirements regarding frequency of data reporting. The NI Water licence requires annual reporting and our intention is to retain the requirement for NI Water to complete Annual Information Returns during PC28.
- 3.130 We note that other UK water regulators over the last 1-2 decades have moved away from annual reporting. Due, however, to the increased public interest in the performance of water companies against their targets and statutory obligations, the wider water industry is moving back to more regular defined and extension annual performance monitoring.
- 3.131 Whilst retaining annual reporting, UR is supportive of a continual improvement in the annual reporting process. We may include some rationalisation of the data within the tables and their associated commentaries to align with Ofwat data for future comparative benchmarking, whilst maintaining sufficient data for regulatory purposes.
- 3.132 It is also UR's intention to continue producing annual Cost and Performance Reports. We will endeavour to publish the reports as soon as practical following 31 March each year.

Finance framework

Financial framework

- 3.133 As part of our approach to PC28, UR has committed to reviewing whether a standard regulatory framework should be retained for calculating NI Water's gross revenue requirement.
- 3.134 In PC21 and previous price controls the gross revenue requirement was calculated through the standard building blocks approach (as shown in Figure 3.2) on operational expenditure, tax, and the rate of return on and depreciation profile of the regulatory capital value (RCV). The difference between the total cash out and the allowed revenue requirement being made up by borrowing.

Figure 3.2: The standard building block approach to price reviews



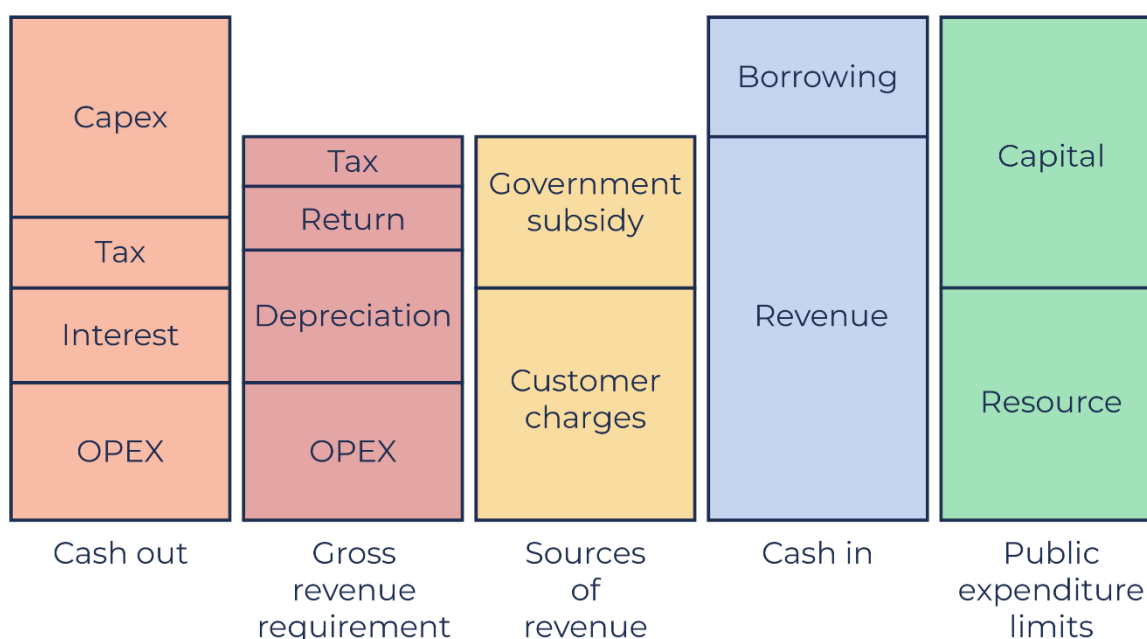
Source : First Economics

- 3.135 An alternative financial framework could be applied for PC28, known as a Cash In Cash Out (CICO) framework. Practically a CICO approach means:
- Every £1 of expenditure UR might be evaluating during its price review will add £1 to NI Water's charges/bills.
 - Every £1 change in expenditure will impact either NI Water's revenue or loan requirement in the cash in stack by £1.
- 3.136 In its response to the consultation, NI Water noted the merit of a CICO approach, providing transparency around how much subsidy and

customer charge is required each year. NI Water proposed the approach would be better described as a hybrid comprising cash elements for finance costs and opex and non-cash elements such as the regulatory depreciation for capital maintenance.

- 3.137 There is regulatory precedent for a CICO approach. ORR and WICS have both used such a model in their reviews of Scottish Water and Network Rail, two other publicly owned monopoly infrastructure companies in the UK which are subject to economic regulation. When regulating a non-departmental public body, such as NI Water, there are several different factors at play as a result of the existence of public expenditure funding, including the sources of revenue and public expenditure limits. These reflect the practical reality of how NI Water operates

Figure 3.3: The Cash In Cash Out approach to price reviews



Source : First Economics

- 3.138 Figure 3.3 demonstrates the presentational difference which the CICO approach has compared to the standard building blocks approach. The CICO approach has the benefit of not only being more transparent, but also being a more relevant means of financially regulating NI Water than the standard building blocks approach. This is because the latter depends more heavily upon RCV, depreciation rules and the rate of return calibrations. For example, the cost of capital is arguably not relevant for NI Water as it is heavily financed by DfI who is its lender (or mains funder).
- 3.139 The intention behind a CICO approach would be to consider only cash elements, however NI Water's hybrid approach to incorporate regulatory

depreciation would still allow for a more accurate approach to NI Water's financing costs, given their status as a non-departmental public body.

- 3.140 Presenting and assembling our financial framework in a way which resembles the realities of how NI Water operates is important. We consider that the current financial framework may be difficult to interpret and may not be intuitive for a range of different stakeholders who are increasingly interested in NI Water regulation.
- 3.141 CCNI noted their support of the CICO model, recognising the reduced subjectivity in the approach, however they expressed caution against significant fluctuations in investment and tariff impacts. While we acknowledge the required caution that fluctuations in the cash out element could result in cash in fluctuations, it is not a given that these fluctuations would have to be passed through customer charges and we will continue to work with NI Water and DfI to reduce volatility in spending over time.
- 3.142 For the CICO approach (as in the current approach), NI Water's RCV will still be considered and monitored, but with the CICO model, it is not part of the process for setting the price control allowances. There would still be merit in tracking the RCV in the CICO approach as it allows for comparison with England and Wales companies. This is aligned with the procedure carried out by WICS when regulating Scottish Water. We note, however, that this simplification under a CICO approach means that we would not calculate a cost of capital for PC28.
- 3.143 NI Water noted that a dividend was notably absent from the CICO approach (in Figure 3.3). NI Water is engaging with DfI to understand its preference, as shareholder, on payment of a dividend. We note that the CICO is, in principle, flexible enough to accommodate whichever company shareholder decision is made, i.e. by adding an appropriately sized 'dividend' line to the 'cash out' stack in Figure 3.3. However, while DfI, as shareholder, has a reasonable expectation of dividends where it to be fully funding NI Water, we note that PC28 may not be fully funded by DfI. If this is the case during PC28, we would not provide for a dividend as part of our regulatory framework (CICO or not). We note that a company (regulated or that operating in a competitive environment) could not reasonably expect, nor would it be financially sustainable, to pay its shareholder a dividend in such a financially constrained situation.
- 3.144 In terms of our choice of CICO, hybrid or existing financial framework, we are not concluding on the appropriate financial framework for PC28 at this stage. Rather, we leave it to NI Water to select its preferred framework and propose a suitable means of funding/financing its planned expenditures as part of its business plan submission. We will

then evaluate the suitability of the proposals as part of our assessment of NI Water's plan.

Inflationary measure

- 3.145 To date, all NI Water price controls have been RPI-linked. However, for more recent price controls determined by UR (such as RP7 and GD23) we have moved from RPI to CPIH. One of the key decisions for the PC28 approach is whether we continue measuring inflation using RPI or make a transition to CPIH.
- 3.146 In the early 2010's a review of inflation metrics carried out by ONS determined that the RPI index does not meet international standards for measuring inflation and as such RPI was deemed an inaccurate measure of inflation. A subsequent piece of work carried out by Paul Johnson, Director of the Institute of Fiscal Studies on behalf of the UKSA (UK Statistics Authority) concluded that 'government and regulators should work towards ending the use of the RPI as soon as practicable'.
- 3.147 In 2019, the UKSA proposed changing the approach to calculating RPI so it would align with CPIH, effectively meaning that RPI would be replaced by CPIH. The then Chancellor indicated its consent, provided the change was implemented no earlier than February 2030. The UKSA signalled intent to ask the government for permission to make the change at the earliest practicable time in 2030.
- 3.148 All received consultation responses were supportive of the move to CPIH, with NI Water noting that this could impact upon RPEs. UR's position is that PC28 should be a CPIH-linked price control, in line with the inflation linkage used for RP7 and GD23 for the reasons outlined above. It is our view that it would be beneficial to move to CPIH at the beginning of the price control period rather than wait for RPI to be aligned with CPIH, which is likely to occur in the middle of the price control. UR also acknowledges the potential impact to the treatment of RPEs and will continue to work with NI Water throughout the process to address these concerns.

Depreciation and Intergenerational fairness

- 3.149 Allowances for NI Water's capex recovery are separated into infrastructure and non-infrastructure assets. Infrastructure assets are mainly below ground and are recovered through infrastructure renewal charges. Non-infrastructure assets are mainly above ground and have until now been recovered by way of a current cost depreciation (CCD) charge.
- 3.150 The continued role for a depreciation charge will depend on whether we use a building block approach, or a CICO approach, or a hybrid of the two

when determining NI Water's PC28 revenue requirement. If we use a building block approach or a hybrid approach, we will need to explicitly select a suitable depreciation profile. This will not be the case if we adopt a simpler CICO approach, although we may still find it helpful to refer to NI Water's work on depreciation when thinking about intergenerational fairness and the appropriate mix of revenues and financing during the PC28 period.

- 3.151 During PC10 and PC15, the CCD charge was set to equal the maintenance non-infrastructure expenditure (MNI). When PC21 was set, a modified approach to depreciation was considered, which set the CCD allowance in line with MNI and then provided an uplift to the CCD allowance, averaging 24% per year over the original 6 years of PC21. In PC21 there was a concern around intergenerational fairness given that NI Water might see greater degradation and greater costs in the future. As such, it would be necessary for current customers to be making more of a contribution to these future costs, to allow for fairer costs for future consumers.
- 3.152 Without this consideration, there is a possibility that NI Water's maintenance expenditure will need to increase in future regulatory periods due to aging assets and an expanded capital base. It would be unfair to leave future customers with the bill for the aging asset maintenance when current customers have been using the assets throughout their economic life.
- 3.153 As part of the PC21 determination, we set an affordable tariff (RPI + 0%) which was higher than the determined level of capital maintenance investment indicated. We considered it appropriate to put bills higher in PC21, thus providing long-term tariff stability. However, at PC21, UR committed to a review of the treatment of depreciation ahead of the next NI Water price control. It was a concern that: 'The current funding model funds asset maintenance expenditure without testing the medium-term broad equivalence with depreciation. As such existing customers may be paying too little and transferring costs to future consumers'.
- 3.154 Ahead of PC28, NI Water presented UR with a report which proposed seven different methods to address the depreciation allowance for non-infrastructure assets and these were assessed based on their economic value, whether they reproduce a hypothetically efficient company, whether they preserve financial capital maintenance, and whether they are practical and affordable to implement. UR, supported by our financial consultant First Economics (FE), has reviewed the different methods proposed by NI Water. UR is minded to consider writing down the opening RCV and with additions as potentially the best approach to treating depreciation in PC28.

- 3.155 This option sets allowances based on the depreciation rates corresponding to the written-down opening RCV value from 2007/08 and any additions from then on. This approach involves calculating depreciation at a highly granular level and reflects the write-down which occurred when building block regulation was introduced for NI Water. NI Water has confirmed that this option is its preference for the approach to depreciation.
- 3.156 NI Water's response to the consultation confirms their agreement that UR's minded to option is the best option to calculate depreciation as it ensures the profile of charges match the underlying NI Water asset values.
- 3.157 Currently, NI Water has provided a model which profiles depreciation according to the existing asset base and forecast assets out to the 2044/45 financial year. However, subject to establishing that we are content with the option for PC28, we would need to be satisfied that the model and the assumptions and evidence underpinning it, acts in line with the preferred option.
- 3.158 UR has requested that NI Water ensure the model addresses the depreciation allowance compared to the actual historical expenditure. It is important to have the depreciation profile align with the forecasted assets in order to allow for smoothing the paydown of the RCV over a long period and to prevent any spikes in the depreciation profile, causing customer bills to change in unforeseen ways.
- 3.159 NI Water has acknowledged that modelled costs would be required to confirm the approach to regulatory depreciation and intend to provide a comprehensive breakdown of modelled costs following the completion of the Outline Capital Submission.
- 3.160 As noted in the previous section on the CICO framework, UR's original position was to apply a CICO approach to all elements of PC28. As such the onus is on NI Water to demonstrate the validity of utilising this approach to regulatory depreciation in its business plan submission.
- 3.161 A CICO approach would provide NI Water with the means of recovering the annual amount spent on capital maintenance. Using regulatory depreciation will allow for additional funds to be recovered in surplus to the MNI spent.
- 3.162 As such NI Water will need to justify the collection of these additional funds within their business plan submission.
- 3.163 Our intention is to continue to work with NI Water to ensure that the approach to depreciation, if needed, is appropriate.

Financial sustainability

- 3.164 Within PC21, as in previous price controls, UR considered the financial sustainability of the company through the use of standard financeability metrics including the Post-Maintenance Interest Cover Ratio (PMICR), and the Funds From Operation (FFO) to Net Debt ratio. We are minded to step away from these metrics for PC28.
- 3.165 Financeability tests are intended to be a real-world check on a real-world constraint that might prevent a regulated company from being able to attract investment. Dfl is NI Water's sole shareholder and its willingness to lend appears wholly unrelated to interest cover.
- 3.166 Standard regulatory practice is to encourage a regulated company to reduce its reliance on debt finance when it fails a financeability assessment. This is not possible in the regulation of NI Water as UR cannot force Dfl to inject equity into NI Water. We, therefore, consider that the presentation of existing financeability tests within PC28 are redundant and serve little practical purpose.
- 3.167 UR believes the intent behind the financial sustainability assessment could ultimately be in establishing whether the borrowing which NI Water has taken on for a given price control period is manageable and is not disadvantaging future customers by a systemic deferral of revenues and consequent excessive borrowing.
- 3.168 NI Water's response to the consultation agrees with the assessment on financeability ratios being developed, however they have advised expanding upon the existing metrics or adapting them to public funded context. UR is open to this possibility and will continue to engage with NI Water regarding this potential adaptation.
- 3.169 A true test of financial sustainability would not necessarily be framed by interest cover ratios, but rather a focus on current costs vs current revenues, assessing whether the level of borrowing is prudent in the context of the amount of new enhancement expenditure.
- 3.170 NI Water expressed in its consultation response that, while it does not operate under the same model as private England and Wales companies, financeability metrics allow for performance comparisons. UR acknowledges the use of such metrics to compare performance, but the onus will be on NI Water to fully demonstrate the importance of the metrics and how they fit with public expenditure rules.

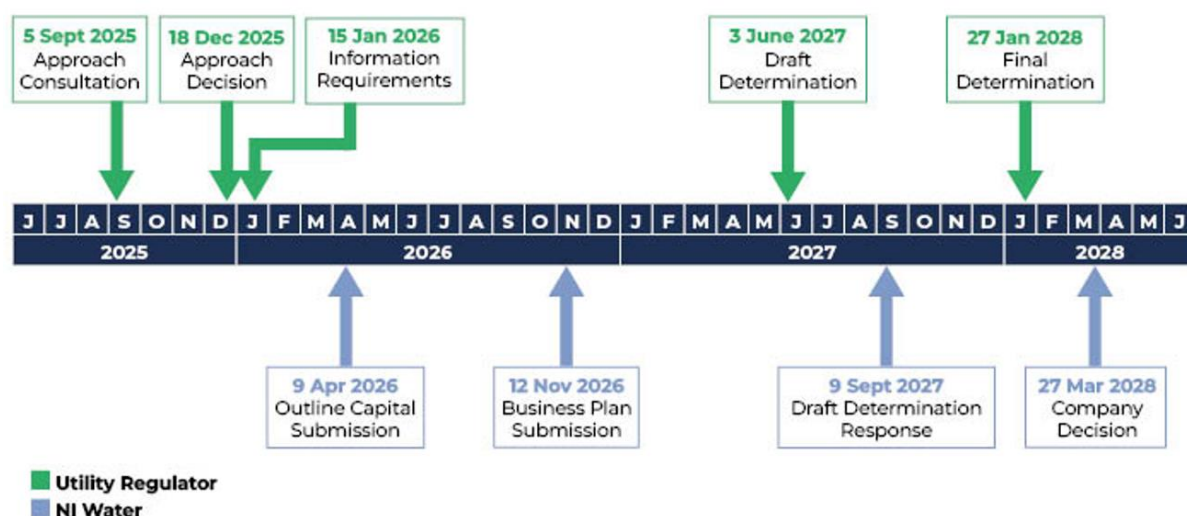
Information requirements

- 3.171 In previous price controls, we have streamlined and simplified the information requirements to reduce regulatory burden on NI Water, to improve communication with key stakeholders and to align with established practice. We intend to continue this objective of continuity and simplicity for PC28 and are reviewing the Information Requirements for PC21 for continued relevance and use for the next price control.
- 3.172 We may develop our information requirements to include additional material on asset health, to bring our regulatory guidance more in line with Ofwat. This has the potential to better inform future price control investment requirements by having data available on asset age, condition and performance history.
- 3.173 We will continue to ensure that the information required from NI Water is sufficient to allow it to submit clear and effective business cases which UR can scrutinize. This is necessary to allow us to effectively assess individual investment proposals, costs and efficiency, to allow for alignment of financial data with inputs required for financial modelling and so that we can reconcile the determination with public expenditure funding.
- 3.174 We aim to publish our final information requirements by 15 January 2026.

4. PC28 timetable

4.1 The timeline for PC28 is shown as Figure 4.1

Figure 4.1: PC28 Timeline



4.2 The PC28 timeline is based on the new price control taking effect on 1 April 2028. A decision was approved by UR Board in October 2024 to extend PC21 by one year to provide additional time to allow us to work constructively with key stakeholders to develop our approach to the next water price control and support NI Water in developing its business plan in a complex environment¹⁹.

4.3 Table 4.1 outlines the key tasks and dates for PC28. Milestone dates (on the timeline) have been highlighted in bold. We have compared the current PC28 timeline against other similar price controls. The PC28 timeline provides a fair balance of time for all determinations by UR and submissions from NI Water as well as consultation responses, to support timely and appropriate delivery of the PC28 price control.

¹⁹ The 'complex environment' mostly relates to uncertainty around the delivery of PC21 outputs due to public expenditure funding constraints which commenced in 2023-24.

Table 4.1: Key dates and milestones

Tasks	Dates (Milestones in Bold)
PC28 Phase 1: Developing our Approach to PC28 and the building blocks for the PC28 business plan	
Principal stakeholders re-commence working groups to develop quality outputs and consumer priorities for PC28	October 2023
UR commences initial engagement with stakeholders	March to May 2024
DfI issues Planning Assumptions to principal stakeholders	10 July 2024
UR issues key principles to stakeholders	4 December 2024
UR publishes Approach Consultation	5 September 2025 to 31 October 2025
UR issues outline Information Requirements	3 October 2025 ²⁰
UR publishes Approach Decision	18 December 2025
UR publishes Information Requirements	15 January 2026²¹
DfI publishes draft Social and Environmental Guidance	TBC by DfI
NI Water issues Outline Capital submission to stakeholders	9 April 2026
DfI consultation on Social and Environmental Guidance	TBC by DfI
UR issues Financial Model to NI Water	10 July 2026
PC28 Phase 2: NI Water's business plan	
NI Water submits draft special factors claims to UR	TBA
DfI publishes final Social and Environmental Guidance	TBC by DfI
NI Water submits Business Plan to UR ²²	12 November 2026
PC28 Phase 3: Price Control Determinations	
UR publishes Draft Determination for consultation	3 June 2027 to 9 September 2027
UR publishes Final Determination	27 January 2028
Company decision - NI Water notifies UR if it rejects Final Determination	27 March 2028
First year of PC28 Charges Scheme applies and NI Water publishes PC28 Monitoring Plan	1 April 2028

²⁰ Planned for 25 September 2025, but issued on 3 October 2025.

²¹ Planned for 27 November 2025, but deferred until 15 January 2026 (post-Approach Decision).

²² Any licence modifications require to be completed in advance of NI Water submitting its business plan.

