

# **PRICE CONTROL FOR WATER AND SEWERAGE SERVICES**

**PC28**

**Final Information Requirements**

**Annex B  
Operational Costs and Efficiency Definitions**

**15 January 2026**

## 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 and Enforcement. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

### 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 information requirements for the next water and sewerage service price control, PC28. We have set out our requirement for NI Water to outline its strategic vision for the development and delivery of water and sewerage services. This annex sets out the definitions in relation to operational costs and efficiency.

## **AUDIENCE**

This document will be of particular interest to Northern Ireland Water. It may also be of interest 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 price control 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.

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# 1. Table 2.1 - Water and Sewerage Service Efficiency Improvements

**Table 2.1 - Block A - Operating Expenditure Efficiency (Base)**

Line 1	Assessment of relative efficiency	Band	A to E
Definition	<p>The company's assessment of its operating expenditure efficiency, relative to other regulated water companies, in 2025-26, according to the following banding scheme:</p> <p>A: If the company is assessed within 5% of the benchmark company</p> <p>B: If the company is assessed as being between 5 and 15% from the benchmark company</p> <p>C: If the company is assessed as being between 15 and 25% from the benchmark company</p> <p>D: If the company is assessed as being between 25 and 35% from the benchmark company</p> <p>E: If the company is assessed as being between 35 and 45% from the benchmark company</p> <p>This assessment is based on total operating expenditure and applies to both base and enhancement operating expenditure.</p>		
Processing Rules	Input field		

Line 2	Assessment of scope for catch-up (base) / assumed profile year on year	%	3dp
Definition	<p>Percentage reduction of the relative efficiency gap between the company and leading companies that the company assesses can be achieved between 2026-27 and 2032-33 and the company's assumption of the annual profile for 2026-27 to 2032-33 inclusive to achieve this catch-up</p>		
Processing Rules	Input field		

Line 3	Assumed minimum level of efficiency improvements/assumed profile year on year (base)	%	3dp
Definition	Company's assessment of the minimum level of efficiency improvements, year on year, that it is reasonable to assume in price setting for even the most efficient companies, for base service operating expenditure. This is equivalent to "frontier shift".		
Processing Rules	Input field		

Line 4	Overall compounded assumed improvement profile (base)	%	3dp
Definition	The overall cumulative improvement in base operating efficiency resulting from catch-up in relative efficiency plus minimum improvements achievable by most efficient companies.		
Processing Rules	Calculated field: Compounded sum of lines 2 and 3 For 2026-27 and following years: $(1 - (1 - \text{Line 4 previous year}/100) \text{ multiplied by } (1 - \text{Line 2}/100) \text{ multiplied by } (1 - \text{Line 3}/100)) \text{ multiplied by } 100$		

**Table 2.1 - Block B - Operating Expenditure Efficiency (Enhancement)**

Line 5	Factor for the scope for enhancement catch up relative to that for base opex	nr	3dp
Definition	Factor that should be applied to the scope for base opex catch-up to give the scope for enhancement opex catch-up. If a company believes that these are the same the factor should be entered as 1. If a company believes that the scope for enhancement opex catch-up is greater than that for base opex this should be entered as a number >1. For example, if a company assesses the scope for base opex catch-up as 40%, and the scope for enhancement opex catch-up as 50%, then the factor is 1.25. If a company believes that the scope for enhancement opex catch-up is less than that for base opex this should be entered as a number		
Processing Rules	Input field		

Line 6	Assessment of scope for catch up (enhancements) / assumed profile year on year	%	3dp
Definition	Percentage reduction of the relative efficiency gap between NI Water and leading companies that the company assesses can be achieved between 2026-27 and 2032-33 and the company's assumption of the annual profile for 2026-27 to 2032-33 inclusive to achieve this catch-up.		
Processing Rules	Calculated field: Column G Assessment for PC28. Factor for the scope for enhancement catch-up relative to that for base opex, line 5 multiplied by assessment of scope for catch-up base, line 2. Other cells are input fields		

Line 7	Factor to assume for minimum level of efficiency compared to base (enhancement)	nr	3dp
Definition	<p>Factor that should be applied to the base opex minimum level of efficiency to give the minimum level of efficiency for enhancement opex.</p> <p>If a company believes that these are the same the factor should be entered as 1.</p> <p>If a company believes that their share of the minimum level of efficiency for enhancement opex catch-up is greater than that for base opex this should be entered as a number &gt;1. For example if a company assesses the scope for minimum efficiency for base opex as 1% p.a. and the minimum efficiency for enhancement opex as 1.5% p.a., then the factor is 1.5.</p> <p>If a company believes that the minimum level of efficiency for enhancement opex catch-up is less than that for base opex this should be entered as a number &lt;1. For example, if a company assesses the scope for minimum efficiency for base opex as 1% p.a. and the scope for enhancement opex catch-up as 0.75% p.a. then the factor is 0.75.</p>		
Processing Rules	Input field		

Line 8	Assumed minimum level of efficiency improvements, p.a. (enhancements)	%	3dp
Definition	Company's assessment of the minimum level of efficiency improvements, year on year, that it is reasonable to assume in price setting for even the most efficient companies, for enhancement operating expenditure. This is equivalent to "frontier shift".		
Processing Rules	Calculated field: Column G Assessment for PC28. Factor for the minimum level of efficiency relative to that for base opex, line 7, times assessment of minimum efficiency base, line 3. Other cells are input fields.		

Line 9	Overall compounded assumed improvement profile (enhancements)	%	3dp
Definition	The overall cumulative improvement in enhancement operating efficiency resulting from catch-up in relative efficiency plus minimum improvements achievable by the most efficient companies.		
Processing Rules	Calculated field: Compounded sum of lines 6 and 8 2026-27 and following years: $(1 - (1 - \text{Line 9 previous year}/100))$ multiplied by $(1 - \text{Line 6}/100)$ multiplied by $(1 - \text{Line 8}/100)$ multiplied by 100		

**Table 2.1 - Block C - Operating Expenditure Efficiency (PPP)**

Line 10	Assumed improvement profile for PPP water opex p.a.	%	3dp
Definition	The company's assessment of the per annum improvement profile for PPP water opex.		
Processing Rules	Input field		

Line 11	Overall compounded assumed improvement profile for PPP water opex	%	3dp
Definition	The cumulative improvement in PPP water opex efficiency.		

Line 11	Overall compounded assumed improvement profile for PPP water opex	%	3dp
Processing Rules	Calculated field: 2026-27 and following years: $(1 - (1 - \text{Line 11 previous year}/100))$ multiplied by $(1 - \text{Line 10}/100)$ multiplied by 100		

Line 12	Assumed improvement profile for PPP sewerage opex p.a.	%	3dp
Definition	The company's assessment of the per annum improvement profile for PPP sewerage opex.		
Processing Rules	Input field		

Line 13	Overall compounded assumed improvement profile for PPP Sewerage opex	%	3dp
Definition	The cumulative improvement in PPP sewerage opex efficiency.		
Processing Rules	Calculated field: 2026-27 and following years: $(1 - (1 - \text{Line 13 previous year}/100))$ multiplied by $(1 - \text{Line 12}/100)$ multiplied by 100		

## 2. Table 2.2 - Water Service Operating Expenditure Projections

2.1 All operational cost figures in Tables 2.2, 2.3 and 2.4 should be given in real terms at the 2025-26 price base.

**Table 2.2 - Block A - Base Year (2025-26) Actuals**

Line 1	Water operating expenditure in 2025-26	£m	3dp
Definition	The company's actual total water service operating expenditure for the regulated business in 2025-26.		
Processing Rules	Input field: Should align with AIR T21 L22 (less PPP expenditure)		

**Table 2.2 - Block B - Adjustments to the Base Year**

Line 2	Net adjustments to actuals	£m	3dp
Definition	Company's assessment of the net adjustment to actual operating expenditure that is needed to reflect normal ongoing expenditure for the water service, for example a negative adjustment for a short term pension holiday and a positive adjustment for restructuring provisions, etc. The adjustment removes exceptional and atypical expenditure in 2025-26.		
Processing Rules	Input field		

Line 3	Adjusted base year	£m	3dp
Definition	Normal ongoing operating expenditure for 2025-26, after adjusting for atypical and exceptional items.		
Processing Rules	Calculated field: Line 1 minus line 2 N.B. All subsequent years should have the same value as the base year.		

**Table 2.2 - Block C - Adjustments to Post 2025-26 PC28 Projections - Additional Opex**

Line 4a, 4b etc	Additional opex	£m	3dp
Definition	Company's assessment of adjustments to normal ongoing base service provision operating expenditure to cater for changed situations (for example a known future charge from Northern Ireland Environment Agency). Exclude adjustments for improving efficiency.		
Processing Rules	Input field		

Line 5	Total base opex	£m	3dp
Definition	Projected total base operating expenditure after adjustment for exceptional and atypical items in the base year 2025-26 and for changes in circumstances affecting base service expenditure.		
Processing Rules	Calculated field: Line 3 plus (Line 4a to Line 4...)		

**Table 2.2 - Block D - Efficiency Improvements (Base)**

Line 6	Overall compounded efficiency profile (base)	%	3dp
Definition	The overall cumulative improvement in base operating efficiency resulting from catch-up in relative efficiency plus 'frontier shift'.		
Processing Rules	Copied field: Copied from Table 2.1, Line 4		

Line 7	Base opex expenditure projection	£m	3dp
Definition	Company's assessment of base opex after efficiency challenge.		
Processing Rules	Calculated field: Line 5 multiplied by (1 minus (line 6 divided by 100))		

**Table 2.2 - Block E - Transformation Costs**

<b>Line 8</b>	<b>Business improvement programme</b>	<b>£m</b>	<b>3dp</b>
Definition	Expenditure associated with efficiency schemes and other transformation/reorganisation projects.		
Processing Rules	Input field		

<b>Line 9</b>	<b>Voluntary early retirement/voluntary severance</b>	<b>£m</b>	<b>3dp</b>
Definition	Expenditure on staff costs associated with the reorganisation projects known as voluntary early retirement/voluntary severance schemes.		
Processing Rules	Input field		

<b>Line 9a</b>	<b>Net adjustments to actuals</b>	<b>£m</b>	<b>3dp</b>
Definition	Company's assessment of the net adjustment to actual operating expenditure that is needed to reflect normal ongoing expenditure for the water service, for example a negative adjustment for a short-term pension holiday and a positive adjustment for restructuring provisions etc		
Processing Rules	Input field: Should only be completed for the base year. Net adjustments in this line along with BIP and VER costs should equal the Line 2 adjustments.		

<b>Line 10</b>	<b>Total transformation costs</b>	<b>£m</b>	<b>3dp</b>
Definition	The overall costs of transformation projects.		
Processing Rules	Calculated field: Sum of Lines 8 and 9 Sum of Lines 8, 9 and 9a for 2025-26		

**Table 2.2 - Block F - Opex from capex**

Line 11	Quality enhancement opex - pre efficiency	£m	3dp
Definition	Quality enhancement operating expenditure arising from the capital programme. This includes drinking water quality, environmental requirements and other obligations.		
Processing Rules	Input field		

Line 12	ESL customer service opex - pre efficiency	£m	3dp
Definition	Additional ESL operating expenditure associated with proposed service enhancements.		
Processing Rules	Input field		

Line 13	Supply/demand balance opex - pre efficiency	£m	3dp
Definition	The adjustments to operating expenditure due to growth related capital expenditure, capital investment for new development and to accommodate the potential impact of climate change, while maintaining existing levels of service.		
Processing Rules	Input field		

Line 14	Security of supply opex - pre efficiency	£m	3dp
Definition	The adjustments made to operating expenditure in due to capital investment undertaken to achieve an enhanced service level that directly impacts on supply/demand balance through improved security of water supplies.		
Processing Rules	Input field		

Line 15	Total opex from capex - pre efficiency	£m	3dp
Definition	The total opex resulting from capital expenditure throughout the PC28 period.		
Processing Rules	Calculated field: Sum of lines 11, 12, 13 and 14.		

**Table 2.2 - Block G - Efficiency Improvements (Enhancements)**

Line 16	Overall compounded assumed improvement profile (enhancement)	%	3dp
Definition	The overall cumulative improvement in enhancement operating efficiency resulting from catch-up in relative efficiency plus minimum improvements achievable by the most efficient companies.		
Processing Rules	Copied field; Copied: Table 2.1, Line 9		

Line 17	Total opex from capex - projection	£m	3dp
Definition	The total opex from capex projection net of an efficiency challenge.		
Processing Rules	Calculated field: Line 15 multiplied by (1 minus (Line 16 divided by 100))		

**Table 2.2 - Block H - PPP Costs and Efficiency**

Line 18	PPP opex (pre efficiency)	£m	3dp
Definition	The pre efficiency operating cost of PPP water assets.		
Processing Rules	Input field		

Line 19	PPP assumed efficiency improvement profile (water)	%	3dp
Definition	The overall cumulative improvement in PPP water operating efficiency.		
Processing Rules	Copied field: Copied: Table 2.1, Line 11		

Line 20	PPP opex (post efficiency)	£m	3dp
Definition	The PPP opex projection net of efficiencies. This line, along with the corresponding line in Table 2.3 should align with line 63, of the Input tab of the financial model.		
Processing Rules	Calculated field: Line 18 multiplied by (1 minus (Line 19 divided by 100))		

Line 21	PPP performance deductions	£m	3dp
Definition	Performance deductions (negative values) to payments specified in the relevant PPP contract for the Alpha scheme.		
Processing Rules	Input field		

Line 22	PPP atypical adjustments	£m	3dp
Definition	PPP expenditure (positive) or savings (negative) arising from exceptional events outside standard contract payment terms and conditions, not included in the unitary charge payments or deductions.		
Processing Rules	Input field		

Line 23	PPP interest payment	£m	3dp
Definition	The PPP interest payments on water assets. This line, along with the corresponding line in Table 2.3 should align with line 66of the Input tab of the financial model (after adjusting for inflation).		
Processing Rules	Input field		

Line 24	PPP capital repayments	£m	3dp
Definition	The PPP capital repayments on water assets. This line, along with the corresponding line in table 2.3 should align with line 65of the Input tab of the financial model (after adjusting for inflation).		
Processing Rules	Input field		

Line 25	Total PPP costs	£m	3dp
Definition	Total unitary charge for PPP water assets		
Processing Rules	Calculated field: Sum of Lines 20, 21, 22, 23 and 24		

**Table 2.2 - Block I - Totals**

Line 26	Total water operating expenditure projection	£m	3dp
Definition	The total water operating expenditure projections including all PPP charges. The figure is net of efficiency.		
Processing Rules	Calculated field: Sum of lines 7, 10, 17 and 25		

### 3. Table 2.3 - Sewerage Service Operating Expenditure Projections

**Table 2.3 - Block A - Base Year (2025-26) Actuals**

Line 1	Sewerage operating expenditure in 2025-26	£m	3dp
Definition	The company's actual total sewerage service operating expenditure for the regulated business in 2025-26.		
Processing Rules	Input field: Should align with AIR T22 L21 (less PPP expenditure)		

**Table 2.3 - Block B - Adjustments to the Base Year**

Line 2	Net adjustments to actuals	£m	3dp
Definition	Company's assessment of the net adjustment to actual operating expenditure that is needed to reflect normal ongoing expenditure for the water service, for example a negative adjustment for a short term pension holiday and a positive adjustment for restructuring provisions, etc. The adjustment removes exceptional and atypical expenditure in 2025-26.		
Processing Rules	Input field		

Line 3	Adjusted base year	£m	3dp
Definition	Normal ongoing operating expenditure for 2025-26, after adjusting for atypical and exceptional items.		
Processing Rules	Calculated field – Line 1 minus Line 2. N.B. All subsequent years should have the same value as the base year.		

**Table 2.3 - Block C - Adjustments to Post PC10 Projections - Additional Opex**

Line 4a, 4b, etc	Additional opex	£m	3dp
Definition	Company's assessment of adjustments to normal ongoing base service provision operating expenditure to cater for changed situations (for example a known future charge from Northern Ireland Environment Agency). Exclude adjustments for improving efficiency.		
Processing Rules	Input field		

Line 5	Total base opex	£m	3dp
Definition	Projected total base operating expenditure after adjustment for exceptional and atypical items in the base year 2025-26 and for changes in circumstances affecting base service expenditure.		
Processing Rules	Calculated field: Line 3 plus (Line 4a to Line 4...)		

**Table 2.3 - Block D - Efficiency Improvements (Base)**

Line 6	Overall compounded efficiency profile (base)	%	3dp
Definition	The overall cumulative improvement in base operating efficiency resulting from catch-up in relative efficiency plus “frontier” shift.		
Processing Rules	Copied field: Copied from Table 2.1, Line 4		

Line 7	Base opex expenditure projection	£m	3dp
Definition	Company's assessment of base opex after efficiency challenge.		
Processing Rules	Calculated field: Line 5 multiplied by (1 minus (Line 6 divided by 100))		

**Table 2.3 - Block E - Transformation Costs**

Line 8	Business improvement programme	£m	3dp
Definition	Expenditure associated with efficiency schemes and other transformation/reorganisation projects.		
Processing Rules	Input field		

Line 9	Voluntary early retirement / voluntary severance	£m	3dp
Definition	Expenditure on staff costs associated with the reorganisation projects known as voluntary early retirement / voluntary severance schemes.		
Processing Rules	Input field		

Line 9a	Net adjustments to actuals	£m	3dp
Definition	Company's assessment of the net adjustment to actual operating expenditure that is needed to reflect normal ongoing expenditure for the sewage service, for example a negative adjustment for a short term pension holiday and a positive adjustment for restructuring provisions, etc.		
Processing Rules	Input field: Should only be completed for the base year. Net adjustments in this line along with BIP and VER costs should equal the Line 2 adjustments.		

Line 10	Total transformation costs	£m	3dp
Definition	The overall costs of transformation projects		
Processing Rules	Calculated field: Sum of Lines 8 and Line 9 Sum of Line 8, 9 and 9a for 2025-26		

**Table 2.3 - Block F - Opex from Capex**

Line 11	Quality enhancement opex – pre efficiency	£m	3dp
Definition	Projected additional operating expenditure to deliver the PC28 sewerage service quality enhancement programme. This comprises all the additional quality expenditure for completion of the PC28 programme and other legally required enhancements.		
Processing Rules	Input field		

Line 12	ESL customer service opex – pre efficiency	£m	3dp
Definition	Additional ESL operating expenditure associated with proposed service enhancements.		
Processing Rules	Input field		

Line 13	Supply/demand balance opex – pre efficiency	£m	3dp
Definition	Projected additional operating expenditure, associated with the provision of sewerage services for new customers and to accommodate increased use of sewerage services by existing customers.		
Processing Rules	Input field		

Line 14	Total opex from capex – pre efficiency	£m	3dp
Definition	The total opex resulting from capital expenditure throughout the PC28 period.		
Processing Rules	Calculated field: Sum of Lines 11, 12 and 13		

**Table 2.3 - Block G - Efficiency Improvements (Enhancement)**

Line 15	Overall compounded assumed improvement profile (enhancement)	%	3dp
Definition	The overall cumulative improvement in enhancement operating efficiency resulting from catch-up in relative efficiency plus minimum improvements achievable by the most efficient companies.		
Processing Rules	Copied field Copied: Table 2.1, Line 9		

Line 16	Total opex from capex - projection	£m	3dp
Definition	The total opex from capex projection net of an efficiency challenge.		
Processing Rules	Calculated field: Line 14 multiplied by (1 minus (Line 15 divided by 100))		

**Table 2.3 - Block H - PPP Costs and Efficiency**

Line 17	PPP opex (pre-efficiency)	£m	3dp
Definition	The pre efficiency operating cost of PPP sewerage service assets.		
Processing Rules	Input field		

Line 18	PPP assumed efficiency improvement profile (sewerage)	%	3dp
Definition	The overall cumulative improvement in PPP sewerage operating efficiency.		
Processing Rules	Copied field: Copied: Table 2.1, Line 13		

Line 19	PPP opex (post efficiency)	£m	3dp
Definition	The PPP opex projection net of efficiencies. This line, along with the corresponding line in Table 2.2 should align with lines 67 and 71 of the Input tab of the financial model.		
Processing Rules	Calculated field: Line 17 multiplied by (1 minus (Line 18 divided by 100))		

Line 20	PPP performance deductions	£m	3dp
Definition	Performance deductions (negative values) to payments specified in the relevant PPP contract for the Omega and Kinnegar schemes.		
Processing Rules	Input field		

Line 21	PPP atypical adjustments	£m	3dp
Definition	PPP expenditure (positive) or savings (negative) arising from exceptional events outside standard contract payment terms and conditions, not included in the unitary charge payments or deductions.		
Processing Rules	Input field		

Line 22	PPP interest payment	£m	3dp
Definition	The PPP interest payments on sewerage service assets. This line, along with the corresponding line in Table 2.2 should align with lines 70 and 74 of the Input tab of the financial model (after adjusting for inflation).		
Processing Rules	Input field		

Line 23	PPP capital repayments	£m	3dp
Definition	The PPP capital repayments on sewerage service assets. This line, along with the corresponding line in Table 2.2 should align with lines 69 and 73 of the Input tab of the financial model (after adjusting for inflation).		
Processing Rules	Input field		

Line 24	Total PPP costs	£m	3dp
Definition	Total unitary charge for PPP sewerage assets		
Processing Rules	Calculated field: Sum of lines 19, 20, 21, 22 and 23		

**Table 2.3 - Block I - Totals**

Line 25	Total sewerage operating expenditure projection	£m	3dp
Definition	The total sewerage operating expenditure projections including all PPP charges. The figure is net of efficiency.		
Processing Rules	Calculated field: Sum of lines 7, 10, 16 and 24		

## 4. Table 2.4 - Total Operating Expenditure Projections

**Table 2.4 - Block A - Total Opex Projections**

Line 1	Base opex	£m	3dp
Definition	Total base opex for water and sewerage net of efficiencies.		
Processing Rules	Calculated field: Sum of Table 2.2 Line 7 and Table 2.3 Line 7		

Line 2	Transformation costs	£m	3dp
Definition	The overall cost of transformation projects.		
Processing Rules	Calculated field: Sum of Table 2.2 Line 10 and Table 2.3 Line 10		

Line 3	Opex from capex	£m	3dp
Definition	Total opex from capex for water and sewerage net of efficiencies.		
Processing Rules	Calculated field: Sum of Table 2.2 Line 17 and Table 2.3 Line 16		

Line 4	PPP costs	£m	3dp
Definition	Total PPP unitary charge for water and sewerage assets.		
Processing Rules	Calculated field: Sum of Table 2.2 Line 25 and Table 2.3 Line 24		

Line 5	Total opex	£m	3dp
Definition	The overall water and sewerage opex projections, including all PPP unitary charges.		
Processing Rules	Calculated field: Sum of lines 1, 2, 3 and 4		