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Dear Dwayne

### **Consultation on allowed revenue for NI Water: PC21 Price Control Extension Year**

I am writing regarding the Utility Regular's consultation on allowed revenue for NI Water during the PC21 Price Control extension year (2027/28).

The Consumer Council is a non-departmental public body (NDPB) established through the General Consumer Council (Northern Ireland) Order 1984. Our principal statutory duty is to promote and safeguard the interests of consumers in Northern Ireland. We have extensive legal powers in consumer affairs, energy, transport, water and sewerage and postal services, with a comprehensive brief on EU Exit and financial inclusion matters.

### **Overall approach**

We agree that a line-by-line cost review for the extension year (2027/28) for PC21 would be disproportionate and likely mean stakeholders having less time to prepare for PC28 which is ongoing. We agree with the principle of basing the allowed revenue for the extension year on a roll-forward approach from original final year of PC21 (2026/27).

The Consumer Council notes that specific adjustments requested by NI Water, however, have been proposed by the Utility Regulator in a few key areas. These adjustments would mean an additional £43.3m (nominal) in allowed revenue for 2027/28.

### **Proposed adjustments on allowed revenue**

As set out in the consultation document, NI Water identified two areas where it feels disadvantaged by the extension of PC21 into 2027/28 namely on the allowed cost of debt and PPP costs.

In relation to assessing the cost of capital, NI Water believes that the cost of debt component should be adjusted to reflect higher interest rates since the PC21 Final Determination set in May 2021. This means an adjustment to the weighted average cost of capital (WACC) from 1.66% for 2026/27 to 2.51% for 2027/28, resulting in an additional £43.9m (nominal) in



allowed revenue for NI Water.

The Utility Regulator's view is that NI Water's approach is consistent with the PC21 methodology. It highlights that NI Water's calculations reflect both the actual cost of current embedded debt and forecast new debt for the extension year, based on the UK government gilt yield forward curve plus 0.85%.

The Consumer Council acknowledges the rationale for increasing the cost of debt component brought about by higher interest rates from when the PC21 Final Determination was undertaken in May 2021. The increase in additional allowed revenue, however, is significant. While we appreciate this arises because of NI Water's large asset base (RCV), we recognise that the Utility Regulator will be undertaking its established logging process around NI Water's capital investment at the end of PC21. As highlighted in our response to the Mid-Term Review, consumers must not pay for investments not made and services not delivered.

We note the adjustment to the PPP unitary charge to reflect the updates to the actual and forecast RPIX index.

### **Price limits**

The Utility Regulator is also required to set the K factors, which represents the percentage increase in prices for the extension year (2027/28). We note that the Utility Regulator is proposing an overall K factor of 3.4% in real terms before inflation. This represents a welcome reduction in the overall K factor which was set at 4.5% for 2025/26 and 2026/27 following the Mid-Term Review and mainly driven by increased power costs at that time.

The Consumer Council notes the proposed K factors by tariff basket and that their allocation is based on volumes of water consumed and wastewater returned, using the same assumptions applied in the PC21 Final Determination for 2026/27. We support the Utility Regulator's stated approach namely to ensure that each customer group pays for the services it receives and to avoid cross-subsidisation between groups.

We look forward to continued collaboration with the Utility Regulator and other key stakeholders on the upcoming PC28 in delivering an efficient, affordable and resilient water and wastewater services for households and businesses in Northern Ireland

Yours sincerely



**Joanne White**  
**Head of Water**

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