NORTHERN IRELAND WATER

PC21 PRICE CONTROL EXTENSION YEAR

Decision on allowed revenue
21 August 2026

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Utility Regulator

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 Millennium 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

NI Water’s PC21 Price Control has been extended by an additional year, covering the 2027/28 period, to allow stakeholders more time to prepare for and develop the next price control. This extension required a determination of the revenue that will form the basis of NI Water’s charges for 2027/28.

The purpose of this document is to provide our decision on allowed revenue, and resulting price limits K factor, for the PC21 extension year.

AUDIENCE

Principal stakeholders (i.e. Department for Infrastructure, NI Water, Northern Ireland Environment Agency, Consumer Council for Northern Ireland, Drinking Water Inspectorate), consumers and their representatives.

CONSUMER IMPACT

This document sets out our decision on NI Water's allowed revenue for the 2027/28 year. This revenue is recovered through Government subsidy and non-domestic consumer bills.

Contents Page

Annexes

Annex	Description
Annex A	NI Water consultation response
Annex B	Consumer Council Northern Ireland consultation response

Executive Summary

NI Water provides the water and sewerage services in Northern Ireland, and its charges are subject to regulation through a price control. The Utility Regulator (UR) sets the price control through a periodic review process conducted in consultation with stakeholders.

NI Water's current price control, PC21, was set to run for a six-year period from April 2021 until March 2027. PC21 was subsequently extended for a further year to allow stakeholders more time to prepare for and develop the next price control.

UR is required to determine the price limits K adjustment factor that will be applied to NI Water's charges for the extension year. This K factor is based on our determination of allowed revenue.

This paper represents the UR's final decision on NI Water's allowed revenue and resulting K factor for the 2027/28 year. Our decision follows a consultation on our proposals published 16 June 2026[1].

In our consultation we proposed that the allowed revenue was based mainly on a roll-forward of the allowance set for the original final year of PC21 (2026/27). We considered this approach to be appropriate, as undertaking a detailed line-by-line cost review would undermine the intended purpose of keeping the extension as simple as possible.

Our proposals also included specific adjustments that we consider would have applied for 2027/28 had PC21 not been extended. These adjustments reflect higher financing costs (£43.9m) resulting from changes in debt market conditions and updated inflation forecast for the PPP unitary charge (£7.3m). We considered these adjustments sought to avoid unintended advantages or disadvantages arising from the extension. Further adjustments due to the removal of deductions that only applied to the original six-year PC21 period resulted in an increase of £24.5m.

We received consultation responses from NI Water and the Consumer Council, which were both in support of our proposals. We remain satisfied that the methodology we proposed represents the most proportionate and appropriate approach for the extension year determination, and consequently, we have not amended our proposals for our final decision.

Our final decision provides a total of £693m (nominal) in allowed revenue for the 2027/28 year, and an overall K factor of 3.4% in real terms (before inflation).

[1] https://www.uregni.gov.uk/consultations/consultation-northern-ireland-waters-allowed-revenue-pc21-price-control-extension

1. Introduction and background

Overview

1.1 In Northern Ireland, NI Water is the sole statutory water company and therefore functions as a monopoly provider. Due to this 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.

1.2 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.

1.3 One element of the regulatory framework that applies to NI Water is the price control process. Each price control ensures that consumers receive value for money through a challenging and achievable determination of the future revenues and charges necessary to deliver a defined set of outputs.

1.4 PC21, NI Water's current price control, was set to run from April 2021 to March 2027, but it has been extended by one year to March 2028. This extension has been done to provide additional time to allow stakeholders to work constructively in developing the next water price control and support NI Water in developing its business plan in a complex environment.

NI Water Price Control

1.5 NI Water's allowed revenue for the price control period is determined through the price control review process. NI Water's allowed revenue is funded through direct charges to non-domestic consumers, charges for road drainage, and a government subsidy in lieu of domestic water charges.

1.6 The charges are grouped into tariff baskets that relate to each customer type. The use of tariff baskets ensures that the revenue raised by each customer group is reflective of the services they receive and there is no cross-subsidy. The tariff baskets are defined in Condition B of NI Water's licence to cover the regulated (core) services provided by NI Water.

1.7 UR set price limits on the charges to ensure revenue collected relates to the revenue allowed. Specifically, it is an 'adjustment factor' referred to as the K factor that we must legally set. The K factor represents the percentage by which tariff basket price limits may increase or decrease relative to inflation on an annual basis over the price control period.

1.8 We originally set the K factors that would apply for the PC21 Price Control period at the PC21 Final Determination. Following the Mid-Term Review, we updated the K factors that would apply for the final two-years of the planned PC21 period. Table 1.1 below presents these K factors for each revenue group and overall. The revenue groups are an alternative more granular presentation of the tariff baskets.

Table 1.1 - PC21 K factors by revenue group

Revenue Group	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Domestic unmeasured water	1.7%	1.0%	0.9%	0.9%	5.3%	5.3%
Domestic unmeasured sewerage	-1.7%	-0.4%	-0.4%	-0.4%	4.2%	4.2%
Non-domestic measured water	-1.8%	-1.8%	-1.8%	-1.8%	2.8%	2.8%
Non-domestic measured sewerage	-1.7%	-0.9%	-0.9%	-0.9%	3.8%	3.8%
Non-domestic unmeasured water	-1.5%	0.2%	-0.3%	-0.3%	4.6%	4.7%
Non-domestic unmeasured sewerage	-1.5%	0.2%	-0.3%	-0.3%	5.3%	5.3%
Trade Effluent	-1.7%	1.5%	1.5%	1.5%	6.0%	6.0%
Overall K factor	**-1.7%**	**0.0%**	**0.0%**	**0.0%**	**4.5%**	**4.5%**

1.9 As PC21 was extended to include 2027/28, we are required to set the K factor for this additional year.

2. PC21 Extension Year

Allowed Revenue

2.1 We proposed that the allowed revenue in 2027/28 was based on a roll-forward of the 2026/27 allowance from the PC21 Mid-Term Review, along with some targeted adjustments. This approach was considered the most appropriate, as undertaking a detailed line-by-line cost review would have undermined the purpose of the extension, which was to provide stakeholders with additional time to develop the next price control.

2.2 The targeted adjustments were identified following engagement with NI Water, where it highlighted areas in which it considered it had been disadvantaged by the extension. NI Water requested the following:

a) An increase in the allowed rate of return for the cost of capital from 1.67% to 2.51% through a higher cost of debt allowance

b) Increase the Public Private Partnership (PPP) unitary charge allowance by £7.3million (nominal)

2.3 We analysed the submitted cost of debt calculations provided by NI Water alongside the approach applied in the PC21 Final Determination.

2.4 We found NI Water's proposal was consistent with the PC21 methodology. The proposal reflected 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%[2].

2.5 The rate of return calculation in PC21 was calculated using a real post tax (vanilla) weighted average cost of capital (WACC). NI Water did not propose any additional changes to either the cost of equity or gearing assumptions used in this calculation. A comparison of the WACC for 2026/27 year and the proposed WACC for the extension year is set out in Table 2.1 below. This adjustment resulted in an additional £43.9m (nominal) of allowed revenue.

[2] Annex O - NI Water PC21 cost of capital report - section 5

Table 2.1: Proposed adjustments to the allowed WACC

Data	PC21 Final Determination for 2026/27	NI Water proposal for 2027/28
Nominal cost of debt	3.40%	5.09%
Forecast RPI Inflation	3.00%	2.94%
Real cost of debt	0.39%	2.09%
Gearing	50%	50%
Post-tax cost of equity	2.94%	2.94%
Vanilla WACC	**1.66%**	**2.51%**

2.6 We also reviewed the proposed change to the PPP unitary charge and concluded that the proposed increase only reflects updated actual and forecast RPIX[3] forecasts compared with the forecast used at the PC21 Final Determination.

2.7 We deemed NI Water's proposed adjustments to be consistent with the PC21 determination approach and reflect only updates to the data used at that time. We therefore proposed to accept these adjustments in the calculation of allowed revenue for the extension year.

2.8 Our consultation also highlighted the adjustments made to items that only applied to the original PC21 6-year period, which were as follows:

a) Removal of the £9.3million (nominal) PPP project clear saving deduction applied in 2026/27.

b) Removal of the £15.2million (nominal) PC15 revenue over recovery deduction applied in 2026/27.

2.9 No other adjustments were considered necessary as they would have required a wider reopening of the PC21 settlement, which would have been inconsistent with the purpose of the extension.

2.10 We updated the NI Water financial model to reflect the above adjustments for our proposals. This resulted in an overall allowed revenue of £693m (nominal) for the 2027/28 year. The key revenue components for 2027/28, before and after these adjustments, are set out in Table 2.2 below.

[3] RPIX - Retail Prices Index excluding mortgage interest

Table 2.2: 2027/28 allowed revenue proposals (£m nominal)

Revenue component	2027/28 based on 2026/27 roll-forward	2027/28 after adjustments
Operating costs	276.2	276.2
Maintenance non-infrastructure	154.9	154.9
Infrastructure renewals charge	56.2	56.2
Return on the RCV	87.4	131.3
PPP unitary charge	62.8	70.1
PPP project clear depreciation	4.3	4.3
PPP project clear customer saving	-9.3	0
PC15 over recovery	-15.2	0
Total	**617.3**	**693.0**

Price Limits K factor

2.11 We allocated the proposed 2027/28 allowed revenue across the tariff baskets and revenue groups to calculate the price limits, otherwise known as the K factor. The allocation was based on volumes of water consumed and wastewater returned, using the same assumptions applied in the PC21 Final Determination for 2026/27. This approach is intended to ensure that each customer group pays for the services it receives and to avoid cross subsidisation between groups.

2.12 The calculated price limits gave rise to the proposed 2027/28 (year 7) K factors for each tariff basket, as set out in Table 2.3 below. The K factors established at the PC21 Final Determination (years 1 to 4) and Mid-Term Review (years 5 and 6) are also included.

Table 2.3 - PC21 (including extension year) K factors by tariff basket

Tariff basket	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Unmeasured Water Supply	1.7%	0.9%	0.9%	0.9%	5.3%	5.3%	3.1%
Unmeasured Sewerage Services	-1.7%	-0.4%	-0.4%	-0.4%	4.2%	4.2%	3.5%
Measured Water Supply	-1.8%	-1.8%	-1.8%	-1.8%	2.8%	2.8%	3.6%
Measured Sewerage Services	-1.7%	-0.9%	-0.9%	-0.9%	3.8%	3.8%	3.7%
Trade Effluent	-1.7%	1.5%	1.5%	1.5%	6.0%	6.0%	3.4%
Overall K factor	**-1.7%**	**0.0%**	**0.0%**	**0.0%**	**4.5%**	**4.5%**	**3.4%**

3. Consultation Responses

Overview of responses

3.1 We received two responses to our consultation on NI Water's allowed revenue for the 2027/28 year, from the following organisations:

- Northern Ireland Water
- Consumer Council for Northern Ireland (CCNI)

3.2 NI Water agreed with the proposed average increase in the price limit to 3.4% for the PC21 extension year and appreciated the approach taken by the UR in reaching this position.

3.3 The Consumer Council agreed with the principle of allowing revenue for the extension year on a roll-forward approach from the original final year of PC21. They also acknowledged the rationale for increasing the cost of debt due to higher interest rates.

3.4 The Consumer Council noted that the increase in additional allowed revenue is significant. They acknowledged that this is due to the large asset base (RCV) that NI Water has and note that UR will undertake a logging up/down process to ensure the value of the RCV is recorded at the correct value.

3.5 The Consumer Council also supported the proposed K factors and UR’s approach to ensure that each customer group pays for the services it receives and avoids cross-subsidisation between groups.

4. Decision

4.1 This paper represents the UR's final decision on NI Water's allowed revenue and resulting K factor for the 2027/28 year. Following assessment of the consultation responses we remain satisfied that the methodology we proposed represents the most proportionate and appropriate approach for the extension year determination. We consider our decision supports continued delivery of water and wastewater services by providing NI Water with an allowed revenue that reflects costs that would likely have applied had PC21 not been extended.

4.2 Our decision provides a total of £693m (nominal) in allowed revenue for the 2027/28 year, and an overall K factor of 3.4% in real terms (before inflation). The tables below show the K factor by tariff basket and revenue group.

Table 4.1 - PC21 (including extension year) K factors by tariff basket

Tariff basket	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Unmeasured Water Supply	1.7%	0.9%	0.9%	0.9%	5.3%	5.3%	3.1%
Unmeasured Sewerage Services	-1.7%	-0.4%	-0.4%	-0.4%	4.2%	4.2%	3.5%
Measured Water Supply	-1.8%	-1.8%	-1.8%	-1.8%	2.8%	2.8%	3.6%
Measured Sewerage Services	-1.7%	-0.9%	-0.9%	-0.9%	3.8%	3.8%	3.7%
Trade Effluent	-1.7%	1.5%	1.5%	1.5%	6.0%	6.0%	3.4%
Overall K factor	**-1.7%**	**0.0%**	**0.0%**	**0.0%**	**4.5%**	**4.5%**	**3.4%**

Table 4.2 - PC21 (including extension year) K factors by revenue group

Revenue Group	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Domestic unmeasured water	1.7%	1.0%	0.9%	0.9%	5.3%	5.3%	3.1%
Domestic unmeasured sewerage	-1.7%	-0.4%	-0.4%	-0.4%	4.2%	4.2%	3.5%
Non-domestic measured water	-1.8%	-1.8%	-1.8%	-1.8%	2.8%	2.8%	3.6%
Non-domestic measured sewerage	-1.7%	-0.9%	-0.9%	-0.9%	3.8%	3.8%	3.7%
Non-domestic unmeasured water	-1.5%	0.2%	-0.3%	-0.3%	4.6%	4.7%	3.9%
Non-domestic unmeasured sewerage	-1.5%	0.2%	-0.3%	-0.3%	5.3%	5.3%	4.9%
Trade Effluent	-1.7%	1.5%	1.5%	1.5%	6.0%	6.0%	3.4%
Overall K factor	**-1.7%**	**0.0%**	**0.0%**	**0.0%**	**4.5%**	**4.5%**	**3.4%**