



Consultation: *Draft Determination for the Water and Sewerage Service Price Control 2013-2015 (PC13)*

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1.0 Introduction

The Consumer Council welcomes the opportunity to respond to the Draft Determination for the Water and Sewerage Service Price Control 2013-2015 (PC13) published by the Utility Regulator (UR) in September 2012.

The Consumer Council is an independent consumer organisation, working to bring about change to benefit Northern Ireland (NI) consumers. Our aim is to make the consumer voice heard and make it count.

We have a statutory remit to *promote and safeguard the interests of* consumers in NI and we have specific functions in relation to energy, water, transport and food (the Consumer Council and the Food Standards Agency (FSA) have a memorandum of understanding and the Consumer Council's strategic focus on food is primarily in relation to food prices and customer experience). These include considering consumer complaints and enquiries, carrying out research and educating and informing consumers.

The Consumer Council is also a designated body for the purposes of supercomplaints, which means that we can refer any consumer affairs goods and services issue to the Office of Fair Trading, where we feel that the market may be harming consumers' best interests.

In taking forward our broad statutory remit we are informed by and representative of consumers in NI. We work to bring about change to benefit consumers by making their voice heard and making it count. To represent consumers in the best way we can, we listen to them and produce robust evidence to put their priorities at the heart of all we do.

2.0 Background and context

This is the Utility Regulator's second Price Control on NI Water and is for a two year period. The first, PC10, was for a period of three years. Significant improvements have been made in our water and waste water services in the last number of years through increased and improved investment, improved work practices, an increasing focus on consumers, outcomes and a greater level of scrutiny, monitoring and accountability.

The Price Control process introduced a transparent and open, albeit complex, regulatory process which involves consumers and stakeholders to define the

costs and outputs of NI Water, and provides a framework for NI Water to evidence a disciplined approach to planning and costing.

In the Programme for Government (PfG) the NI Executive committed not to introduce domestic water charges for another three years. Legislation is currently being considered by the Assembly which permits the continuing of the subsidy to NI Water in lieu of domestic water charges until 2016. This will permit a newly elected Assembly and Executive in May 2015 to decide on the future finance and governance of NI Water.

Consumer Council research¹ shows that half of the adult population in Northern Ireland is worried about making ends meet and over half are worried about making ends meet in the future. Furthermore, only half are managing to keep up with bills and credit without difficulties and more than one in four stated that they are worried that they, or someone in their household, will lose their job within the next year. The Consumer Council welcomes the commitment of continuing the subsidy for at least another three years by the NI Executive.

Regarding non-domestic consumers PWC recently reported that almost one in five retail units in Belfast is vacant. This vacancy rate is almost twice that of the UK average.² In addition Northern Ireland can expect the lowest growth amongst the 12 UK regions in both 2012 and 2013, with the housing market flat and export markets remaining difficult.³ The FSB has reported “Throughout the recession the Northern Ireland economy has consistently lagged behind that of its UK counterparts”.⁴

The need to strive for low costs and value for money in our water and sewerage services is constant but attracts particular attention in these tight economic times for both businesses and tax-payers.

It is vital that consumers understand the investment required to maintain this service and equally vital that investment continues to further develop the infrastructure.

¹ Consumer Proficiency Research, 2011/2012. The Consumer Council

² <http://pwc.blogs.com/northern-ireland/2012/10/uk-high-streets-suffer-as-multiple-retailers-retreat.html> 18 October 2012

³ UK Economic Outlook, July 2012 PWC

⁴ <http://www.fsb.org.uk/ni/corporation-tax>

3.0 Consumer Outcomes

3.1 The Approach

PC13 has been described and is being treated as a two year extension of PC10. As such, UR committed to a proportionate approach, describing it as “regulation-lite”. Given the approach and the time frame stakeholders agreed that the consumer engagement undertaken for PC10 and reported in the Tapping into Consumer Views on Water Report would be current and relevant to be included as consumers’ priorities for PC13. Consumers do not view the services they receive in price control cycles. It is the same service by the same company monitored by the same bodies. Therefore the smooth transition from one period to the next is essential, including the continuing improvement of services.

PC13 needs to build on the progress and achievements of PC10. Consumers do not want momentum to slow. The Consumer Council recognises that a proportionate approach is a reasonable one and that focus must be appropriately split between the delivery of PC13 and the planning of the more strategic six year PC15.

3.2 Improving Services

NI Water states that it will have almost doubled its OPA in five years and this is welcome news for consumers. Although a useful measurement of service performance its application in NI Water is not without its shortcomings. Six of the scores of out 17 cannot be used because of data quality issues and of the measures which can be used there are issues of comparability as well as the fact that water companies in England and Wales have moved from OPA to SIM. However, until a suitable alternative for NI Water is found it is a good proxy of service improvement.

3.3 Consumer Priorities

NI Water agreed to continue the focus on the five key service improvements identified by, and most visible to consumers in PC10. Consumers will therefore expect NI Water to commit to improving:

1. Sewer Flooding
2. Low Water Pressure

3. Interruptions to Supply
4. Written Complaints
5. Customer Experience

In addition consumers will need to see clear links between investment and service improvement and delivery in these key areas. There needs to be tangible benefits. Consumers need to understand the where, when and why of service improvements. The imperative is on NI Water to improve the links between investment plans and the outcomes for consumers.

3.4 Delivery

3.4.1 Capex

If clear links between investment and outcomes are provided there are advantages to investing now. The downturn in the construction market means contracts should be negotiated at more favourable rates than we might expect in subsequent years. Cheaper prices now will lower the eventual costs to consumers. Additionally and importantly, consumers would also get the benefit of the improved service earlier.

The capital programme was broadly agreed by the stakeholders prior to the Draft Determination. The Consumer Council is encouraged that the UR believes a further £11.5m worth of capital outputs can be delivered within the budget committed. We are aware of NI Water's concerns on its ability to deliver this capital efficiency challenge, however it is crucial that an agreed ambitious capital programme is finalised so that consumers know exactly what they will receive for their money.

Consumers will expect the same level of capital investment efficiency to be delivered at the same rate as in PC10; this is acceptable given the extension of the PC10 approach, the same recessionary conditions and favourable negotiations to be achieved in the construction sector.

3.4.2 Opex

The Regulator set challenging targets in PC10 for NI Water, targets which NI Water stated at the time were not achievable. In the first two years of PC10 NI Water outperformed its annual operational efficiency challenge of 6.48 per cent, and reports to date point that NI Water will have outperformed these. NI

Water must be congratulated on this achievement, but it is concerned that a proportion of these efficiency gains are opportunistic, one-offs and not repeatable or certainly not guaranteed.

It is in the consumer interest for the company to be efficient as possible, but this must not be borne out of high risk of the service breaking, becoming unsustainable or regressive. There are high levels of consumer confidence in NI Water⁵, we need to maintain and grow this.

It is not in the consumer interest to exert operational efficiencies so high that it risks optimal service delivery. However, the Regulator in the Draft Determination is confident that the operational efficiency challenge set for NI Water over PC13 has precedent and is in line with achievements of other water and sewerage companies.

In addition, it is not out of sync with what is being asked of the public sector as a whole.

Setting the appropriate level of expenditure is key to ensuring services are delivered at the right price, that this price is fair, affordable and sustainable, and that consumers do not pay twice for services or service improvements that they have already funded.

The Consumer Council shares the Regulator's view that the licence should be amended to prevent NI Water claiming unused K from previous Price Control periods.

3.4.3 Model

All stakeholders recognise the difficulty of the hybrid model in which NI Water must operate, in particular in planning capital spend. We have requested more information from NI Water to quantify financial and non-financial difficulties and opportunities its current hybrid status brings.

4.0 Consumer Confidence

Consumers need to have confidence in the regulatory system. If there are quality issues with information and data consumers cannot be confident that the correct decisions are being made.

⁵The Consumer Council's Long Term Water Strategy Research

The Consumer Council has been consistently calling for an improvement in NI Water's data since it commented on the company's Business Improvement Plan in 2007. We are disappointed that there are still large areas of poor quality data but we support the Regulator's approach in requesting business cases for investment programmes where data is lacking. We believe that if clearly defined outputs are included this will provide a level of consumer confidence. The Consumer Council expects that NI Water will continue to close the gaps in information throughout PC13, and would seek assurances that the issues of poor quality or no data be fully addressed through the duration of PC15.

5.0 Conclusion

Like the Regulator the Consumer Council expects NI Water to set out a strategy to provide the longer term context for PC13 and beyond. Climate change, water efficiency, renewable energy and the cost of carbon will become increasingly important as PC13 develops and we move into PC15. Consumers have increased awareness of such issues and recognise that some investment might be needed but that this would become more of an issue in the future⁶.

As we have stated PC13 is an extension of PC10, continuity is key and the benefits must continue to be realised for consumers. Consumers, domestic and non-domestic alike are paying more than they should because of the inefficiencies in NI Water. The Consumer Council recognises the difficulties in delivering the efficiencies but consumers deserve water and sewerage services that are fair, affordable and sustainable.

⁶ Tapping into Consumer Views on Water: A Research Report by the Consumer Council commissioned by NI Water, March 2009



The Consumer Council

Making the consumer voice heard and making it count

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