

Utility Regulator Draft Determination on PC13

Consultation Response

About ICE Northern Ireland

The Institution of Civil Engineers (ICE) is a global membership organisation of over 83,000 members that promotes and advances civil engineering around the world.

ICE Northern Ireland (ICE NI) is a leading source of professional expertise in transport, water supply and treatment, flood management, waste and energy in Northern Ireland. ICE NI's vision is to place civil engineers at the heart of society, delivering sustainable development through knowledge, skills and professional expertise.

Response

Infrastructure is vital to our way of life. We rely on an effective, working infrastructure network for clean water and sewerage services. However infrastructure affects more than our daily lives; it enables a working economy, giving us means to maintain the development of the country. Studies have shown that good infrastructure results in positive economic growth. Both the OECD and HM Treasury have acknowledged that growth in UK productivity has been held back by under investment in infrastructure.

ICE's State of the Nation reports have found the overall state of the infrastructure in Northern Ireland is at a tipping point. This is reflected in a Grade C which signifies the need for investment to enable effective functioning and avoid infrastructure failure in the next 3 years. We believe that major decisions must be taken to ensure our water and sewerage systems are fit for purpose as well as helping us to adapt to climate changes as witnessed in recent months during more frequent extreme rainfall events.

ICE NI maintains that all sectors require on-going funding to deliver the quality of life which we take for granted. However failure to invest in key areas such as water and flood risk management will be critical and have major detrimental effects on customer services as the infrastructure will struggle to meet increasing demands on water and sewerage services. Earlier this year ICE NI published an update on its State of the Nation Report for Water and this is attached with our response.

ICE is pro-planning and therefore fully support the forward looking regulatory price control process. We also fully support the identification of priorities for the water industries determined through stakeholder engagement and consultation and final endorsement by the

Assembly. Having followed such a robust and inclusive process we then view it as a significant shortfall for the regulatory price control contract to be breached by its dependency on a Government subsidy due to its classification as a Non Departmental Public Body (NDPB).

In the following sections of our response we comment more specifically on the Price Control 2013 to 2015 (PC13) draft determination consultation.

We acknowledge that NI Water has been subject to Economic Regulation since 2007 and that this is the second price control it will be subjected to. Our comments in relation to the PC13 Price Control draft determination focus on :-

- i. **Capital Investment** - The level and strategic focus of capital investment provided and how this is arrived at;
- ii. **Operational Efficiency Gap** - The need to reduce the significant operational efficiency gap to release inefficient spending as quickly as possible;
- iii. **Resolve Funding for the Water Industry** - With reference to our State of the Nation Report on Water published in 2012, the need to introduce domestic water charges both to secure a revenue stream for NI Water and to educate consumers of the value of water and to encourage its efficient use.

Capital Investment

It is our understanding that the level of capital investment made available to NI Water is advised in advance of the company submitting its Business Plan to the Utility Regulator and does not therefore reflect an assessment of infrastructure needs, strategic outcomes or identified risks. We see this as a significant shortfall in the process. We are however aware that the Department for Regional Development is progressing a Long Term Water Strategy to inform future investment decisions and in particular inform the Utility Regulator's longer term 6 year price control 2015 to 2021. We support and emphasise the importance of this approach and the Utility Regulator's intention to require NI Water to set out its strategic objectives and obligations, identifying risks (such as infraction; interruptions to service etc) associated with various levels of capital investment.

A concern from the current NDPB classification of NI Water, inhibiting the company from taking a strategic approach is its current requirement to operate within one year budgets, which are subject to change in year. We understand that during PC10 some £50m was withdrawn from the company which delayed planned work at Waste Water Treatment works, which in turn impacted on industries ability to implement planned expansion together with a

significant reduction in the addressing of unsatisfactory intermittent discharges potentially leading to pollution incidents. This is a significant concern if not addressed for the next longer term Price Control 2015 to 2021 which we understand will be focused on compliance with the Water Framework Directive together with addressing potential implications from more extreme and frequent weather events.

From a wider economy and infrastructure perspective, the loss of capital investment is a lost opportunity to build resilience in essential infrastructure and to boost economic recovery and sustain jobs in the short term as investment in construction in NI creates around 28.5 jobs for every £1m spent.

Operational Efficiency Gap

We acknowledge the 38% operational efficiency gap between NI Water and the frontier English, Welsh and Scottish water companies as reported in your PC13 Draft Determination but query why the benchmarking is undertaken against such high level performance. We understand that this level of inefficiency existed in all other UK Water Companies prior to their re-organisation – Privatisation in the case of the English and Welsh companies and the creation of a statutory corporation in the case of Scottish Water.

We understand that NI Water's current hybrid status, operating as both a Non-Department Public Body and as a Government Owned Company is cited as an inhibitor to the rate at which these efficiencies can be delivered. If this is the case, it is imperative that action is taken to resolve the governance issues so that no reasons can be cited for not delivering the required efficiencies. In addition it appears that the pace of change which is stipulated (60% efficiency saving) is overly onerous during a 3 year period, given that mainland UK companies have a five year price control period.

An important aspect we note is that the efficiencies delivered by other UK water companies have not resulted in poorer services, quite the contrary with a marked improvement in the regulator's overall performance score being delivered. It is important that this is the case for NI Water and we note the good progress which NI Water made during the regulator's first price control 2010 to 2013 where they outperformed efficiency targets and improved its overall performance score from 131 to 184.

Again the delivery of these inefficiencies and the redeployment of funds into other public sector areas or into infrastructure projects will assist in these stressed economic times where government funding is strained. We also wonder if a similar savings could be delivered by other public sector agencies.

Resolve Funding for the Water Industry

We agree that the current dual status of NI Water, being classified as both a Non-Departmental Public Body and Government Owned Company, arising from the absence of domestic water charges and thus a dependency on government subsidy is not optimal. We note that the absence of domestic water charges removes a secure revenue stream which is essential in enabling the company to drive out efficiencies as quickly as possible and to ensure that strategically prioritised capital scheme are delivered to programme and in line with the regulatory price control contract

We also consider that there is lost opportunity for the NI Executive, to realise additional capital funding. With a secure revenue stream NI Water would be in a good position to access capital from private markets thus release government capital for other infrastructure priorities as reflected in the recently published Investment Strategy for NI. The potential for attracting FDI from companies with high water usage requirements should also be considered.

We believe it is important to raise the risk of infraction associated with non-compliance of Article 9 of the Water Framework Directive which requires member states to have water-pricing policies which recoup an adequate contribution from the different water users disaggregated into at least industry, households and agriculture which in turn will incentivise the efficient use of this valuable resource and contribute to environmental objectives of the Water Framework Directive. This risk, if realised, would result in fines of the order of £300k/day. It is also worth noting that, with the introduction of water charges in Republic of Ireland, Northern Ireland will soon be the only region in Europe not to charge domestic consumers directly for the service.

Further Information

For further information please contact ICE Northern Ireland on 028 9087 7157.