



Graham Craig
Utility Regulator
Queens House
14 Queens Street
Belfast BT1 6ED

7 January 2019

Dear Graham,

PC21 Consultation on a Revenue Cap

Our reference: PD20010/2993

Thank you for the opportunity to respond to this consultation. I would also like to thank you for the time taken to meet and discuss the different options.

As raised in our meeting we are concerned that the consultation has been undertaken with a pre-determined outcome, namely that the Utility Regulator (UR) wants to move to a Revenue Cap methodology for PC21. We have taken UR's assurances that full consideration will be given to all responses to the consultation.

The approach to PC21 is rightly based on the current governance and funding arrangements for NI Water. Should these conditions change we would request an appropriate review of the Price Control approach and mechanisms.

Based on the evidence in the consultation, The Consumer Council believes a Revenue Adjusted Price Cap (RAPC) is the most suitable option for PC21. We understand that a RAPC:

- provides stable and predictable charges;
- has been tried and tested in PC15;
- is compatible with public expenditure rules;
- is robust and aligns with the GB approach; and
- allows for charges to be reset at planned Price Control determinations and mid-term reviews.

For the RAPC mechanism to fully deliver for consumers two conditions are required:

- Method of adjustment – over recovered revenues should be fully reflected in the reset charges and be returned directly to consumers at the start of the next three year period. We would not support UR's noted intention of adjusting the RCV to return over recoveries

to consumers.¹ We are concerned that this method would reduce the impact of the adjustment, i.e. the over recovered amount would be 'lost' within the much larger RCV, and that the length of time to return the over recovery to consumers would be too long.

- Timely adjustments – the regulatory regime must ensure that consumers do not pay too much, with timely interventions should this occur. Revenues should be reviewed and charges reset at both the mid-term review and the Price Control determination to establish a rolling three year revenue review. This three year review also reduces the risk of substantive price changes between Price Controls. Should under recovery adjustments be required these can be phased over the following three year or full Price Control period to lessen the severity of price increases and avoid unacceptable step-change increases.

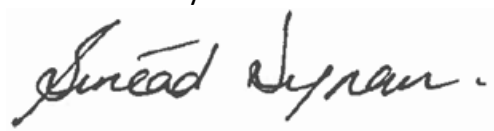
A full Revenue Cap introduces the known risk of price instability. This is also a risk to consumer confidence. We welcomed NI Water's PC15 strategic aim to keep bill increases below inflation, and would support a similar aim for PC21. If price instability is introduced, with the risk of fluctuating 'peaky' annual charges, it is possible that the reputation of the regulatory regime for water and sewerage will be negatively impacted.

Accurate demand forecasting should improve for PC21, and we would not expect the divergence in forecast and actual demand to be the same as that identified at the PC15 mid term review. While no evidence or suggestion is put forward that NI Water has been deliberately under forecasting demand, a RAPC with a set three year review removes an incentive for NI Water to bias demand forecasts.

Once UR has considered the responses and provided its decision with full rationale, we look forward to ongoing discussions to develop any required Licence modifications or revenue mechanisms for PC21.

If you would like to discuss this response or require any more information please contact Graham Smith, graham.smith@consumercouncil.org.uk, telephone 028 9065 1629.

Yours sincerely



Sinead Dynan
Director of Regulated Industries

¹ Nor would we support the creation of a short term RCV to deal with the return of over recoveries.