



Water and Sewerage Services Cost and Performance Report for 2018-19

An assessment of NI Water's costs and
performance

May 2020



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 Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Corporate Affairs, Markets and Networks. 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

- Be a best practice regulator: transparent, consistent, proportionate, accountable and targeted.
- Be professional – listening, explaining and acting with integrity.
- Be a collaborative, co-operative and learning team.
- Be motivated and empowered to make a difference.

Abstract

We regulate the revenue NI Water receives through periodic price controls. Our proposals set an overall revenue requirement and identify the levels of capital and operational expenditure. This report reflects our assessment of NI Water's performance during 2018-19. This is the fourth year of its third regulatory price control, PC15, which covers the period from April 2015 to March 2021.

Audience

Regulated utilities, regulatory community, industry, consumers and their representative bodies and statutory bodies.

Consumer impact

This assessment provides consumers with an assessment on NI Water's performance to the end of 2018-19 in delivering the requirements of our price control.

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Executive Summary

The assessment of NI Water's performance undertaken for our 2018-19 Cost and Performance Report shows that the company has broadly delivered on its final determination performance targets in the first four years of the PC15 price control period. The company continued to deliver an improved overall level of service to consumers, but underperformed against its operational expenditure (opex) efficiency target.

Our key findings are summarised by area below:

Operating expenditure

NI Water's operating expenditure was £215.5m in 2018-19. This is above our regulatory allowance of £203.5m (in 2018-19 prices), a difference of £12m.

Capital Investment

The company invested £170m of capital expenditure (capex) in 2018-19, contributing to a total investment of £622m in the first four years of the PC15 price control period. Capital investment in real terms has been constrained by the available public expenditure budget and we have worked with NI Water, DfI and other key stakeholders to ensure that the company delivers the best possible package of outputs within the funding available. We will continue to assess cumulative delivery over the medium term taking account of changes in budget, inflation and the delivery of capital efficiency.

Output Delivery

We use an Overall Performance Assessment (OPA) score to assess NI Water's overall delivery of service to customers. This is a composite score which includes a broad range of measures covering service delivery in the areas of water supply, sewerage service, customer service and environmental performance. NI Water met and exceeded our PC15 Overall Performance Assessment (OPA) target in 2018-19. NI Water's performance was the company's highest ever OPA score and is equal to the OPA target set for the 2020-21 year.

Year-on-year improvements may not always be achievable due to the potential for the natural variability of some contributing data and environmental conditions to affect the overall score. Our final determination annual performance targets take account of potential variability and therefore the company's ability to meet or outperform these targets remain our benchmark for successful delivery in the period, rather than year on year improvements.

The company met or exceeded planned delivery in 35 of the 45 Outputs set in the PC15 final determination. This includes 12 out of 15 consumer service measures and all but one of the water and sewerage quality outputs. NI Water delivered the majority of its nominated output targets and maintained stable serviceability in all service areas. There is a lag in delivery in some areas, primarily in the delivery of wastewater outputs.

Delivery of development objectives to improve planning capability in time to inform the business plan submission for PC21 was a key requirement for NI Water in PC15. NI Water submitted its PC21 business plan on 31 January 2020 and we are currently assessing the extent to which the company has met these objectives. Our assessment will be included in our Draft Determination for PC21 and will be published later this year.

PC21 Price Control

While NI Water has continued to deliver the planned outputs for PC15 this has not been sufficient to address existing capacity issues, particularly for wastewater services. The company has highlighted a growing issue of capacity constraints at wastewater treatment work and in the sewerage network which act as a constraint on current and future development.

The indicative capital budget used for investment planning purposes in PC15 was significantly less than the investment need identified by NI Water and has constrained necessary improvements to services. The actual budget allocation to date for capital investment in PC15 is below the indicative budget identified in the PC15 Social and Environmental Guidance.

NI Water submitted its Business Plan for the next water Price Control (PC21 covering the period 2021-2026) on the 31 January 2020. In this plan the company has identified the work it considers essential to meet established needs and is affordable from a tariff perspective. It has estimated that significantly more funding is needed to sustain existing services, meet its legal obligations and support economic and social development.

While we continue to scrutinise and challenge this plan, it is likely that continuing to invest in water and sewerage services at historic levels will have a detrimental impact on the economy and the environment including: increasing number of areas where development is constrained; more frequent environmental breaches leading to poorer river and marine water quality; and an increased flood risk from a drainage system working at or over capacity.

NI Water has demonstrated its capability in PC15 by delivering its planned outputs and improving areas on customer service. However, continued underinvestment in the essential services it provides could jeopardise the significant achievements of the

company to date and would fail to meet the needs of citizens, the economy and society as a whole.

Responding to COVID19

We are publishing this report on past performance at a time that consumers, communities, stakeholders and NI Water are focused on how to address the impact of COVID19.

Over the past weeks NI Water and other utility companies have implemented a number of measures to respond to the COVID-19 pandemic, aimed at complying with government guidelines and protecting the health and safety of both staff and consumers. We acknowledge and are grateful for their commitment to securing supplies and maintaining services where possible and for their engagement with us as we collectively seek to navigate the current situation.

We recognise that the need for NI Water to minimise activities which are not essential in the short term will have an impact on performance measures and delivery of capital outputs in 2020/21. The immediate and longer-term impacts of the pandemic on NI Water and consumers is something that we will consider in all aspects of our regulatory work.

1. Introduction

Price Controls

- 1.1 Northern Ireland Water (NI Water) is responsible for providing water and sewerage services to consumers in Northern Ireland. Since NI Water is the sole provider of these services, the Utility Regulator (UR) regulates the amount of revenue the company receives. This ensures value for money for consumers. We therefore scrutinise the company's revenue requirements through periodic price controls.
- 1.2 NI Water is a government-owned provider of water and sewerage services. Financially, it is treated as a Non-Departmental Public Body (NDPB) since the majority of its income is from public funding. While domestic consumers do not directly pay for water charges, the cost of providing these services to commercial consumers is recovered through bills.
- 1.3 NI Water's third regulatory price control period of PC15 began on 1 April 2015 and will run for six years until 31 March 2021. It took account of a public expenditure capital budget provision of £990m, as indicated in the Department for Regional Development's (DRD's¹) 2014 Social and Environmental Guidance, along with the UR's assessment of the efficient operational expenditure required.
- 1.4 Our [PC15 Final Determination](#), published in December 2014, set out the Revenue and output requirements for NI Water for the PC15 period.
- 1.5 The next price control period (referred to as PC21) will commence in April 2021. We published our approach to PC21 in June 2018 following a period of engagement and consultation with the water industry principal stakeholders. Our approach to PC21 follows a similar model to that adopted for PC15 and will deliver a six year price control covering the period April 2021 to March 2027.

Cost and Performance Reports

- 1.6 We use Annual Information Returns and Cost and Performance Reports to assess and report on actual delivery against the requirements we set for the company in our price control final determinations. As a minimum our reports cover the key areas of costs and efficiency, operating expenditure, capital

¹ The CPR makes reference to the Department for Regional Development (DRD). Under the Departments Act (Northern Ireland) 2016 and The Departments (Transfer of Functions) Order (Northern Ireland) 2016, the functions of DRD transferred to the Department for Infrastructure (DfI) in May 2016.

investment and delivery of KPIs (including our overall performance assessment score). However on occasions the reports may also be used to explain material issues or developments that have occurred during the reporting period. We produce and publish Cost and Performance Reports annually.

- 1.7 This report provides an assessment of company performance at the end of the fourth year (2018-19) of the 6 year PC15 price control period.
- 1.8 Our conclusion, is that NI Water is broadly delivering against the PC15 final determination targets. The overall service provided to consumers continued to improve against a backdrop of budget reductions in nominal terms. Some aspects of delivery remain behind profile, mainly as a consequence of re-profiling expenditure to accommodate the budget reductions experienced in the first two years of PC15. Our PC15 mid-term review concluded that this should be recoverable if the budget and inflationary figures assumed for the remainder of the period remain correct. However, recognising the current need for NI Water to minimise activities which are not essential in the short term and the reduction in delivery of capital outputs in response to COVID19, it is now likely that there will be a shortfall in delivery against planned PC15 outputs with some work carried over into PC21.

2. Costs and Efficiency

Turnover

- 2.1 The UR determines price limits (referred to as K factors) to be applied over the price control period. The K factors are the annual percentage increase or decrease in charges above or below inflation. An annual approval process is then operated to ensure tariffs are in line with the determination. The UR found the 2018-19 tariffs to be marginally lower than the permitted limit.
- 2.2 Actual turnover will vary from determination forecasts over time as inflation, volumes and accounting adjustments impact on the final reported turnover within the annual accounts. Actual regulated turnover of £394.3 was marginally higher than the PC15 forecast of £394.0. However when adjusted for inflation it was c£17m more than anticipated, due to additional customer numbers and volumes.
- 2.3 We considered over-recovery of revenue in our PC15 mid-term review and decided not to review tariffs. This is because we couldn't be certain that the higher levels of revenue recovery would continue throughout the remainder of the PC15 period. We believe that the determination we will make for PC21 in 2020/21 is the most appropriate time to consider the need for any adjustments. This will allow us to take a balanced view of financial performance over the period and avoid making adjustments which prove to be inappropriate in the longer term. We plan to make adjustments to reflect the over-recovery of revenue and return money to consumers in PC21.

Operating Profit

- 2.4 The operating profit of £141.1m was significantly higher than the PC15 forecast of £111.1m, however this is not on a like for like basis due the introduction of IFRS accounting for regulated purposes during the year. NI Water had already been accounting using IFRS for statutory accounts for a number of years.

Dividend

- 2.5 A dividend of £28.3m was paid to the company shareholder, the Department for Infrastructure, in respect of 2018-19. This level of dividend is slightly lower than projections in the PC15 final determination.

Loan Profile

- 2.6 Department for Infrastructure (DfI) loans increased to £1146.6m from £1082.6m but are lower than the PC15 projection of £1219.8m. The difference can largely be explained by lower actual borrowings compared to forecast at the start of PC15 and lower capital expenditure during PC15 to date.

Regulatory Capital Value

- 2.7 The Regulatory Capital Value (RCV) is the value of the appointed business on which NI Water earns a return at the determined weighted average cost of capital. The RCV is increased each year by investment in new assets and reduced by the value of assets that have been depreciated or sold off in the year. NI Water's RCV has grown steadily from the start of its first price control (PC10) and stands at £2.538 billion at the end of 2018-19. This is lower than the PC15 projection of £2.640 billion due to lower inflation than forecast and lower capital expenditure.
- 2.8 More detail on NI Water's financial information is set out in the company's statutory and regulatory accounts. These can be found on NI Water's website².

Operational Expenditure

- 2.9 NI Water's operating costs (opex)³ increased in nominal terms from £208.6m in 2017-18 to £215.5m in 2018-19. However, this £6.9m rise, translates into a 0.3% real terms increase in the day-to-day running costs of the business over the year, once inflation is taken into account.
- 2.10 NI Water experienced real terms opex increases in some expenditure items, for example, electricity costs and salary costs. There were also reductions in expenditure on hired & contracted services for example. Overall, this resulted in an incremental slight real terms increase in NI Water's opex over the year.

² <https://www.niwater.com/publications/>

³ Operating costs also include PPP/PFI costs. PPP/PFI refers to Public Private Partnership / Private Finance Initiative schemes.

- 2.11 NI Water’s £215.5m of opex spend in 2018-19 is above our regulatory allowance of £203.5m (in 2018-19 prices), a difference of some £12m in-year⁴.
- 2.12 NI Water is currently underperforming against our regulatory allowance on opex for the PC15 period. At present the operational expenditure is also marginally above the amount NI Water initially claimed for 2018/19. This is shown in the figure below.⁵

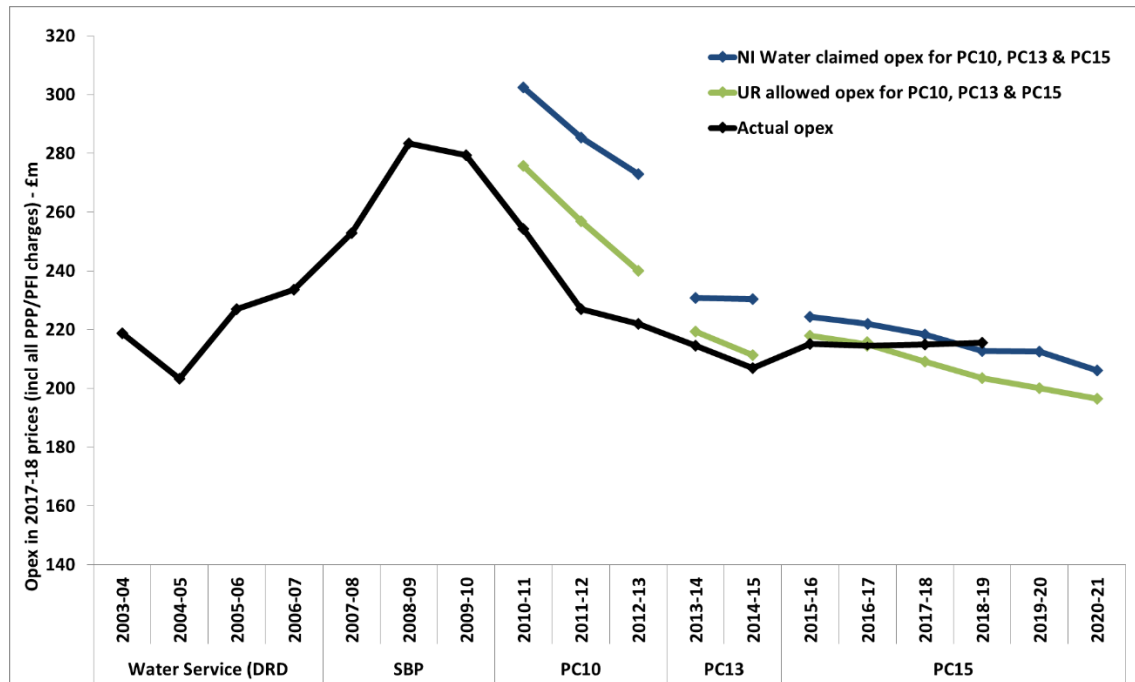


Figure 2.1: NI Water’s opex profile in real terms (2018-19 prices)

Closing the Efficiency Gap

- 2.13 In previous Cost & Performance Reports, the UR compared NI Water’s opex efficiency position with companies in England and Wales, on an annual basis. The estimates were derived using the UR’s Corrected Ordinary Least Squares (COLS) econometric and unit cost models, as employed in the PC10, PC13 and PC15 determinations. These models were based on an Ofwat suite of models used for PR04 and PR09.
- 2.14 Over time our analysis showed a continuing improvement profile; however, a

⁴ This -£12m figure reduces to -£10.5m if Voluntary Early Retirement/Voluntary Severance (VER/VS) costs of £0.2m is excluded from actual spend and account is taken of an adjustment of £1.3m due to a change in accounting standards. Note, VER/VS was supported in principle by UR, but not funded through charges. Other expenditure items which NI Water consider as atypical in 2018-19 may impact on opex performance further.

⁵ The rise in NI Water’s opex in 2015-16 (first year of PC15) is primarily due to its rates bill increasing substantially over the year, driven by the LPS rating revaluation exercise.

gap still remained to the best companies in England and Wales. According to our results NI Water closed their efficiency gap to the 'frontier', or best performing comparator company, from around 49% in 2007-08 to an estimated 13% in 2014-15 (our latest year of efficiency results).

- 2.15 We are currently developing a new methodology for the assessment of NI Water's operational efficiency gap. Comparator data from Ofwat is being published and with NI Water we have examined the feasibility of using new water and wastewater variables to inform PC21 price control efficiencies. This work is progressing well via working level engagement with NI Water staff and we will report our conclusions during 2020/21 in our draft and final determinations for PC21.

3. PC15 Performance

Performance against PC15 final determination targets

- 3.1 In our [PC15 Mid-term Review](#) we concluded that NI Water should have sufficient funding to deliver all of the outputs defined in the final determination if budget reductions over the remainder of the period were no more severe than they had been to date.
- 3.2 Tables 3.1 and 3.2 present our assessment of delivery to date against the PC15 final determination targets. To ensure comparison with delivery on a like for like basis, the PC15 targets have been adjusted to:
- include outputs which were expected to be delivered in PC13 but carried over into PC15;
 - exclude outputs planned for PC15 which were delivered early in PC13;
 - account for movements between programmes.
- 3.3 Colour coding has been used to indicate whether NI Water has met or outperformed its target (green), is marginally behind target (amber) or is more significantly behind target (red). When categorising underperformance, we have considered the impact of cost delays, re-profiling of delivery undertaken by the company and the potential for 'catch-up' when coming to a marginal assessment. Where the company was required to deliver an annual target the shading is solid. Some targets are however set for PC15 as a whole and we report performance against these targets on a cumulative basis. In these cases the same colour coding has been used but the shading has been hatched.
- 3.4 Our conclusion based on reported performance to date is that NI Water is broadly delivering against the PC15 final determination targets in overall terms. Comments on exceptions are provided under Tables 3.1 and 3.2 below.

Water Services Targets

Line description		2018-19 Target	2018-19 Actual	Comments
A	Consumer Service Water			
1	DG2 Properties at risk of low pressure removed from the risk register by company action	516	562	On track
2	DG2 Properties receiving pressure below the reference level at end of year	616	719	Behind target
3	DG3 Supply interruptions > 12hrs (unplanned and unwarned)	0.16%	0.04%	Target met
4	DG3 Supply interruptions (overall performance score)	1.00	0.44	Target met
5	DG6 % billing contacts dealt with within 5 working days	99.90%	99.99%	Target met
6	DG7 % written complaints dealt with within 10 working days	99.50%	100.00%	Target met
7	DG8 % metered customers received bill based on a meter reading	99.00%	99.67%	Target met
8	Call Handling Satisfaction score (1-5)	4.65	N/A	Target dropped
9	DG9 % calls not abandoned	99.00%	99.45%	Target met
10	DG9 % calls not receiving the engaged tone	99.90%	99.99%	Target met
11	Overall Performance Assessment (OPA) score (11 Measures)	227	245	Target met
12	Total Leakage (MI/d)	157	160	Marginally behind
13	Security of supply index	100	100	Target met
14	% NI Water's power usage derived from renewable sources	35.0%	39.4%	Target met
B	Water Quality			
15a	% overall compliance with drinking water regulations	99.79%	99.90%	Target met
15b	% compliance at consumers tap	99.69%	99.83%	Target met
16	% iron compliance at consumers tap	97.10%	98.94%	Target met
17	% Service Reservoirs with coliforms in >5% samples	0.00%	0.00%	Target met
C	Water Outputs			
18	Water mains activity - Length of new, renewed or relined mains (km)	570	582	On track
19	Completion of nominated trunk main schemes	3 ⁶	3	On track
20	Completion of nominated water treatment works schemes	2	1	Marginally behind
21	Completion of nominated improvements to increase the capacity of service reservoirs and clear water tanks	1	1	On track
D	Serviceability			
22	Water infrastructure serviceability	Stable	Stable	Target met
23	Water non-infrastructure serviceability	Stable	Stable	Target met
E	New Output Measures			
24	Number of Catchment Management Plans	15 ⁷	13	On track
25	Number of lead communication pipes replaced under the proactive lead replacement programme	7376	7626	Target met
26	Number of school visits	704	999	Target met
27	Number of other education events	228	257	Target met
28	% Service Reservoirs where sample taps have been assessed and are to required standard	100%	98.3%	Marginally behind

Table 3.1: NI Water PC15 Key Outputs for Water Services

⁶ Target amended for reasons described in 3.2 to ensure a like for like comparison with delivery.

⁷ The original PC21 target was based on all catchments, including those not in service. It has subsequently been revised to reflect catchments in service and exclude those completed in PC13.

- 3.5 NI Water met or outperformed almost all of the consumer service and water output objectives for 2018-19.
- 3.6 Use of the call handling satisfaction measure was discontinued in 2016-17 as agreed by the Consumer Engagement Oversight Group (CEOG), comprising of all key stakeholders. This is a consequence of the work undertaken by the group to develop more consumer focused metrics and 'actionable' measures of customer satisfaction during PC15, to inform and potentially set new KPIs for PC21.
- 3.7 The original survey is no longer used and has been replaced by a new unannounced survey of customers who have had need of contacting NI Water in the recent past. The new survey includes a new customer advocacy measure to compare NI Water to its peers both internationally and across other service providers as well as yearly Omnibus customer advocacy results from a representative sample of all NI Water consumers. Conducting the survey in PC15 allows consideration of whether any new targets ought to be introduced for PC21.
- 3.8 For the purposes of assessing overall performance in the remaining years of PC15, CEOG has agreed that a score of 4.65 (equivalent to NI Water's best ever performance for the discontinued survey) should be used to calculate the company's OPA score.
- 3.9 The company fell below target in four water service areas. Further details are provided below:
- The number of properties on the low pressure register has gone above the target figures included in the PC15 final determination, despite the company continuing to outperform its target for the number of properties removed by company action. This resulted from a significant increase in the number of additions identified in 2018-19 compared to previous years.
 - Leakage was higher than the target figure for the third year in a row. Whilst the variance is still not significant it is concerning that the company has not been able to close the gap in 2018-19. We note that NI Water produced an addendum to the submission in 2017-18, which identified actions it intended to take to ensure it meets its leakage target at the end of PC15. We expect the company to continue to try to deliver on these commitments and to maintain its focus on achieving its leakage targets by the end of the PC15 period.
 - The number of water treatment works is slightly behind target. This is because NI Water no longer intends upgrading Caugh Hill WTW in PC15 as it currently appears to be performing satisfactorily. The

company has submitted a formal change control which substitutes three alternative WTW upgrades (Derg WTW, Ballinrees WTW and Rathlin WTW) for Caugh Hill. These works are now higher priority as they have had performance issues and are subject to Drinking Water Inspectorate enforcement.

- Although the percentage of Service Reservoirs where sample taps have been assessed and are to the required standard is still behind programme, the installations are now largely complete. NI Water has installed 286 taps (98.3%) of the 291 taps to be addressed and the remaining five installations are due to occur in 2019-20.

Sewerage Service Targets

Line description		2018-19 Target	2018-19 Actual	Comments
A	Consumer Service Sewerage			
1	DG5 Properties at risk of flooding - number removed from 2 in 10, 1 in 10 and 1 in 20 risk register by company action.	46	40	Marginally behind
2	DG5 Properties on the 2 in 10, 1 in 10 and 1 in 20 risk register at the end of the year	128	124	On track
B	Quality Sewerage			
3	% of WwTWs discharges compliant with numeric consents	94.1%	94.8%	Target met
4	% of total p.e. served by WwTWs compliant with numeric consents excluding upper tier failures	99.12%	99.4%	Target met
5	Small WwTW compliance (works greater than or equal to 20p.e. but less than 250p.e.)	91.86%	86.64%	Target not met
6	Number of high and medium pollution incidents attributable to NI Water	25	16	Target met
C	Sewerage Outputs			
7	Sewerage activity - Length of sewers replaced or renovated (km)	47	52	On track
8	Delivery of improvements to nominated UIDs as part of a defined programme of work	74 ⁸	56	Behind target
9	Delivery of improvements to nominated WwTWs as part of a defined programme of work	13 ⁸	12 ⁹	Marginally behind
10	Small wastewater treatment works delivered as part of the rural wastewater investment programme	29 ⁸	23 ¹⁰	Marginally behind
D	Serviceability			
11	Sewerage infrastructure serviceability	Stable	Stable	Target met
12	Sewerage non-infrastructure serviceability	Stable	Stable	Target met
E	New Output Measures			
13	CSO and EO discharges at which event and duration monitoring equipment has been installed	231	115	Behind target
14	WwTWs upgraded to comply with PPC Regulations	7	7	On track
15	Impermeable surface water collection area removed from the combined sewerage network	120,000	236,727	On track
16	Number of sustainable WwTW solutions delivered (p.e. ≥ 250)	2	4	On track
17	Number of sustainable WwTW solutions delivered (p.e. < 250)	1	1	On track

Table 3.2: NI Water PC15 Key Outputs for Sewerage Services

3.10 NI Water met or outperformed almost two thirds of the sewerage service output objectives for 2018-19:

- The company did not meet its target for the number of properties at risk of internal flooding removed by company action. This is a consequence of NI Water re-profiling the delivery of a major sewerage

⁸ Target amended for reasons described in 3.2 to ensure a like for like comparison with delivery.

⁹ NI Water also completed construction of two other large wastewater treatment works in 2017-18. Work necessary to validate compliance for these works continued into 2018-19. We will recognise the delivery of these outputs when this has occurred.

¹⁰ NI Water also completed construction of two other rural wastewater treatment works in 2018-19. Work necessary to validate compliance for these works continued into 2019-20. We will recognise the delivery of these outputs when this has occurred.

scheme with nine DG5 outputs to PC21. The number of properties identified as at risk of internal flooding is lower than anticipated because the number of removals undertaken as a consequence of better information is almost double the number of additions.

- The number of small wastewater treatment works delivered under the rural wastewater investment programme remains behind target. The initial lag in delivery due to the deferral of 7 pending the establishment of a new delivery framework has not yet been addressed. The small wastewater treatment compliance measure is also behind target. This is partly a consequence of this shortfall in delivery of outputs, but also the fact that a higher number of compliant works moved into non-compliance than in previous years.
- NI Water is only slightly behind its target for the delivery of nominated wastewater treatment works. The lag in delivery resulting from budget reductions in the early part of PC15 has now largely been addressed.
- NI Water is behind its cumulative target for the delivery of improvements to nominated UIDs. The shortfall remains the same as in AIR18 and the revised delivery has moved outputs into the final year of PC15. As a consequence, the company will have to deliver nearly a quarter of the improvements in the final year of the programme if the PC15 target is to be met. This creates a risk to overall delivery. We will assess the 'equivalence' of the overall programme of outputs delivered in PC15 from the perspective of cost and benefit as part of our PC21 determination.
- NI Water remains significantly behind its target for installing event and duration monitoring equipment at its combined sewer and emergency overflows. However it has made good progress in 2018-19 by completing the first 115 installations under this programme and still plans to complete all work by the end of the PC period. Annual installation rates similar to 2018-19 will need to be achieved in the final two years of the price control period if this is to be achieved. We remain concerned about the impact that these delays will have had on the company's ability to plan investment for PC21 effectively.
- NI Water and NIEA have agreed a programme for delivering PPC compliance at WwTWs and from now on we will report annual compliance against the delivery profile for any works that require capital investment improvements. Whilst the figures reported in 2018-19 align with the agreed profile, NIEA continues to express disappointment with NI Water's decision to defer delivery of the highest priority output to PC21. NIEA continues to challenge this

decision and as a minimum is likely to insist on remedial work at the site during PC15 to mitigate the risk of odour nuisance prior to the final solution being delivered.

Quality Compliance

- 3.11 Performance against some targets can be affected by things outside the company's control, such as the weather or sampling regimes. For PC15 we identified performance ranges for water and wastewater quality which reflected this inherent variability. The specific annual targets which were based on these ranges were all met in the 2017 calendar year as shown in Tables 3.1 and 3.2.
- 3.12 The PC15 water quality output targets were set just above the lower limits of the estimated performance ranges, with the company expected to outperform these consistently throughout the period. In 2018, performance for all these measures (overall water quality compliance, compliance at consumers' taps and iron compliance) lay well above the minimum compliance requirements at, or above, the top of the performance range as shown in the graphs below. The improved performance for the overall compliance and customer tap measures reflects the continued improvement in compliance for iron which contributes the largest number of failures to these composite measures. While recognising that sampling regimes creates a natural variability in reported compliance, there is a consistent trend in improvement and the results for 2018 better than our target range for PC15. We will take account of the improvements delivered during PC15 when setting performance ranges and targets for PC21.

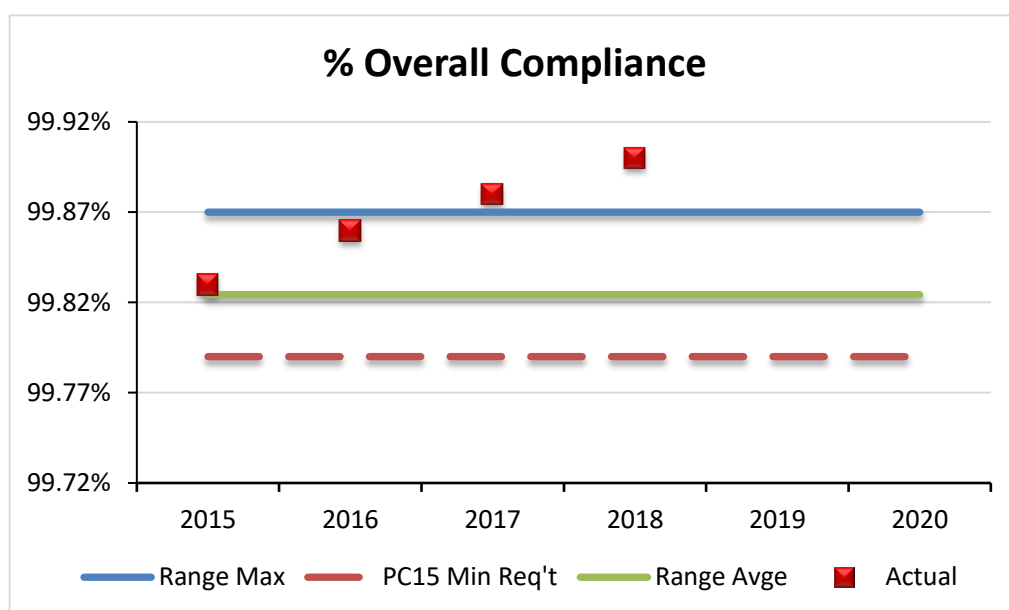


Figure 3.1: Overall water quality compliance

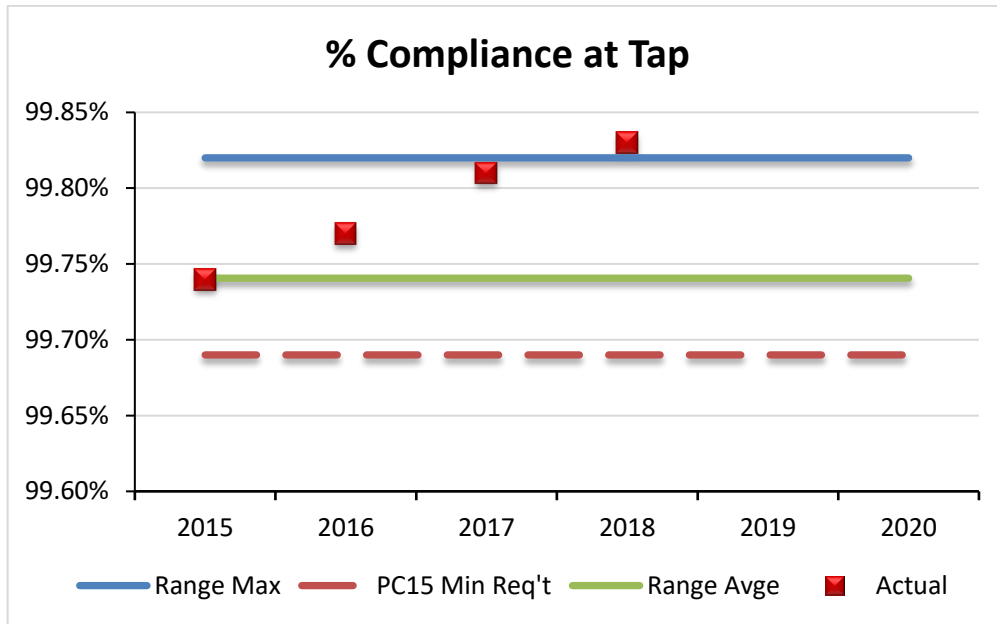


Figure 3.2: Water quality compliance at the tap

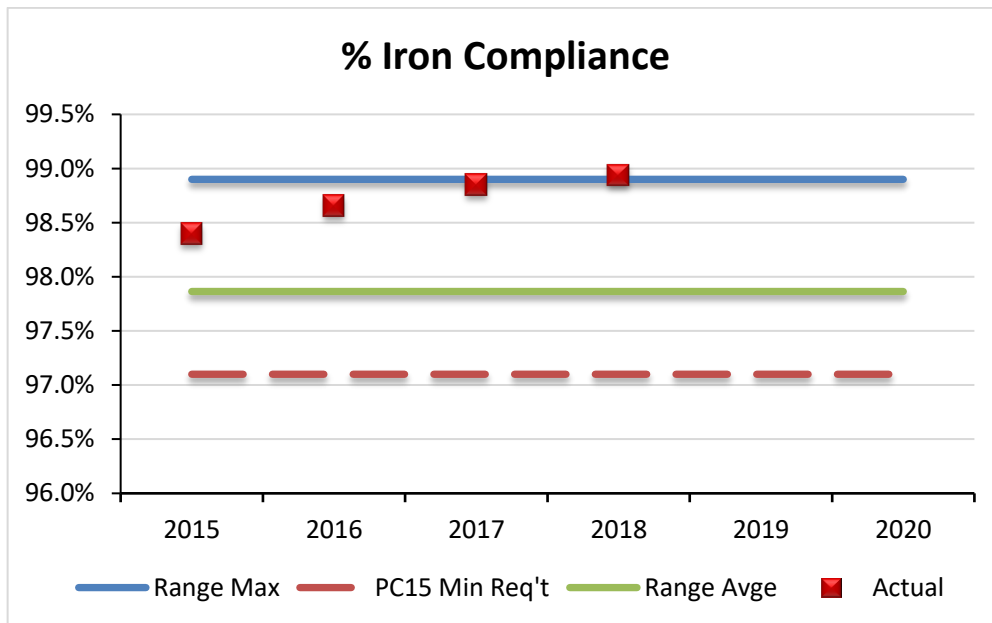


Figure 3.3: Water quality compliance at tap for iron

3.13 The PC15 targets for wastewater compliance, measured on the basis of the percentage of treatment works complying, were set at the lower end of our projected operating range. Although this was considered to represent a reasonable assessment of the operating risk, we noted in the final determination that we would expect the company to generally operate at or above this level during PC15. Performance in 2018 remains just above the target line reflecting cumulative delivery of nominated wastewater treatment works is broadly in line with the final determination profile.

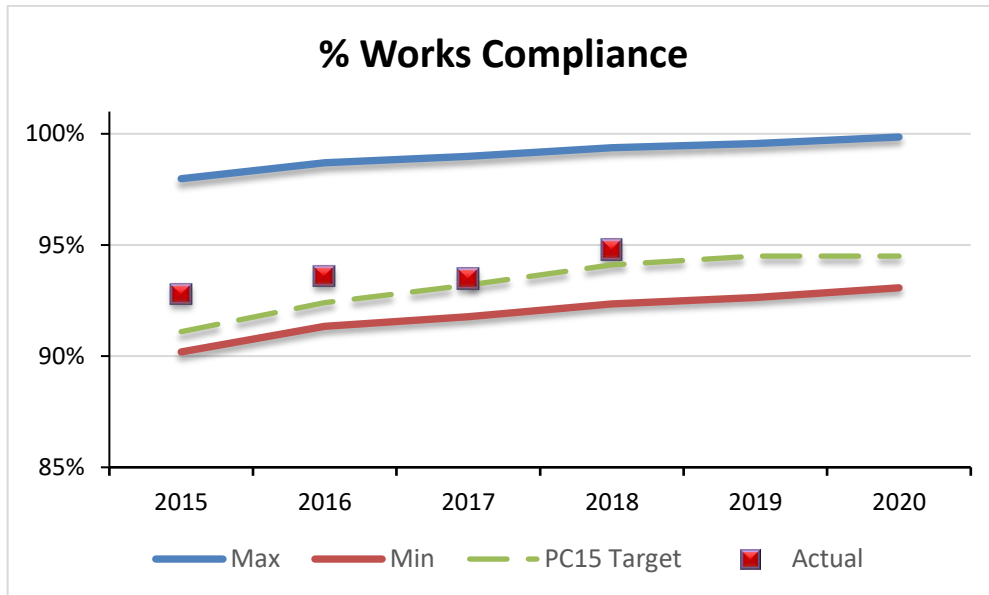


Figure 3.4: WwTW discharges compliant with numeric consents

- 3.14 The PC15 targets for wastewater compliance, measured on the basis of the population served, were set roughly at the mid-point of our projected operating range. Performance in 2018 remains above target, in the top half of the range, as shown below. This is reflective of the fact that NI Water maintained compliance at its larger treatment works.

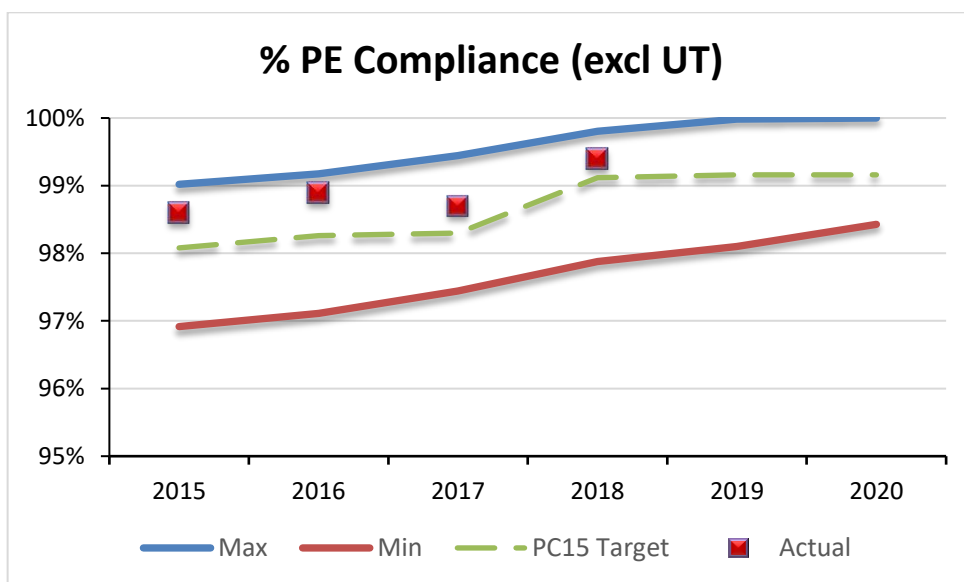


Figure 3.5: Population equivalent served by WwTWs compliant with numeric consents¹¹

¹¹ The PC15 output measure for "Population equivalent served by WwTWs compliance with numeric consents" excludes upper tier failures.

Serviceability

- 3.15 We use trends for a range of primary and secondary serviceability indicators to assess how the company is maintaining its assets.
- 3.16 We have updated our PC15 final determination serviceability assessment for each primary and secondary indicator to include outturn data for the first 3 years of PC15. The updated trends of the primary indicators in the four service areas are shown below. All show stable (horizontal) trends and so we have concluded that serviceability remains stable overall.

Service	Primary service indicator
Water Infra	Mains bursts per 1,000km
Water Non-infra	Percentage of regulatory samples taken for Turbidity at WTWs which exceed 0.8 NTU
Sewerage Infra	Sewer collapses per 1,000km
Sewerage Non-infra	Number of WwTWs with one or more compliance sample result (BOD, SS or Ammonia) exceeding the numeric consent value

Table 3.3: Primary serviceability indicators

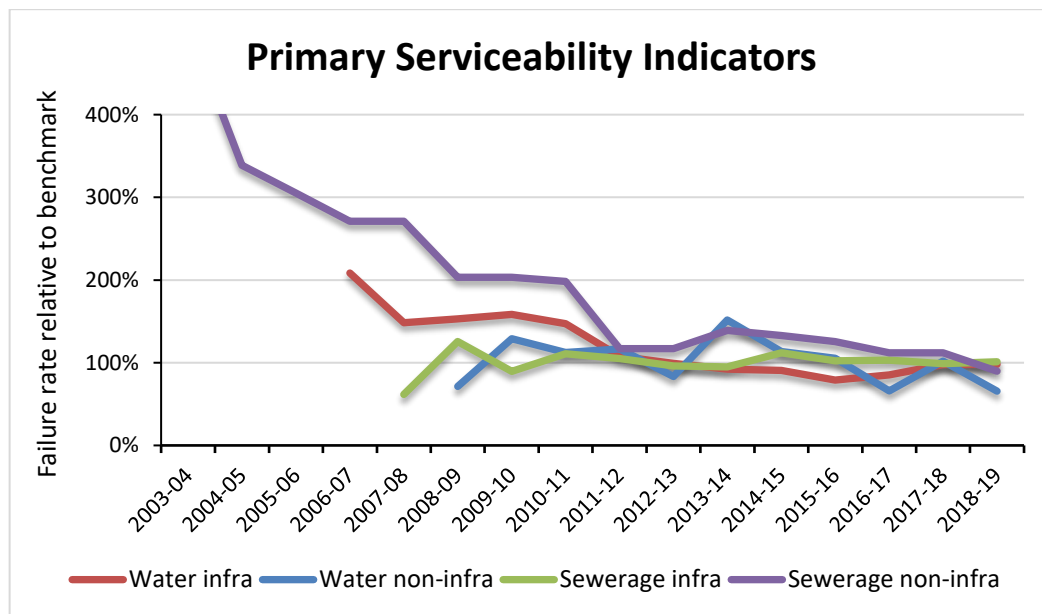


Figure 3.6: Primary serviceability indicator trends¹²

¹² A score of 100% represents operation at the reference level benchmark and a horizontal trend around this benchmark is indicative of stable serviceability. A reducing trend indicates an improvement and an increasing trend deterioration.

- 3.17 While our current assessment is that serviceability remains stable overall, some secondary serviceability indicators have shown improvement and have performance which is now better than predicted by the performance range.
- 3.18 In our PC15 Mid-term review we concluded that we should wait until PC21 before any making any adjustments to control limits. This approach aligns with normal regulatory practice and will allow the reassessment to benefit from additional years of performance data and confirmation of whether the improvements continue to be sustained.
- 3.19 Performance for the Trihalomethane (THM) water quality sub-indicator has improved again in 2018-19 and now lies just above the reference level for the performance range set in the PC15 final determination. We welcome the improved performance in the last two years which has returned the indicator to a stable assessment. We expect NI Water to continue to investigate and address the root causes of THM issues so that performance can be maintained within performance limits for the remainder of the PC15 period.

Customer Service and Overall Performance Assessment

- 3.20 In order to fully assess how NI Water is performing, we have adopted the Overall Performance Assessment (OPA) framework. This monitors the overall level of service that NI Water provides to its customers.
- 3.21 Our OPA combines 11 individual service measures and scores them against a reasonable range. Scores are then weighted in order of importance and combined to give an overall picture of service level performance.
- 3.22 Figure 3.1 below details NI Water's OPA scores from 2007-08.
- 3.23 Key points for this reporting year are:
- With a score of 245, NI Water outperformed our PC15 OPA target (of 227) for 2018-19 by 18 points. Performance was up on the previous year from a score of 236. This year's score represents an achievement above the target set for the final year of the price control (2020-21).
 - Over the 2018-19 year, service levels improved in the areas of drinking water quality, sewage treatment works (STW) consent breaches and unplanned interruptions. Service levels declined for hosepipe restrictions and water pollution incidents compared to the previous year.

- There is still a service gap with England and Wales (E&W) companies (who achieved an average score of 290 in 2009-10). However NI Water continue to close the gap with the E&W comparator companies.

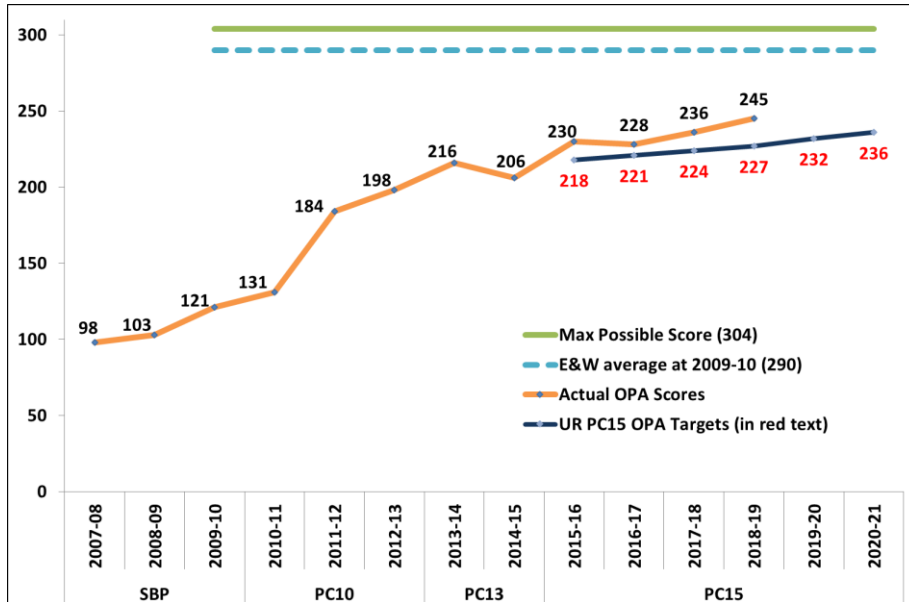


Figure 3.1: NI Water's OPA scores

4. Capital Expenditure

Expenditure to date

- 4.1 NI Water invested around £170m in 2018-19 to:
- Maintain its existing assets;
 - Meet more demanding quality obligations;
 - Provide extra capacity for growth; and
 - Improve the levels of service it currently provides.
- 4.2 Due to reductions in public expenditure budgets, investment in PC15 to date was £622m, £29m lower than the nominal figure of £651m included in the PC15 final determination. This has constrained NI Water's ability to deliver the PC15 outputs in real terms even after the benefits of lower than anticipated inflation is taken into account.
- 4.3 The reduction from the figures included in the PC15 final determination result from public expenditure capital budget allocations being lower than anticipated in three of the first four years of the price control period. In line with the approach set out in our PC15 final determination, we have worked with NI Water, DfI and other key stakeholders to ensure that the company continues to deliver the best possible package of outputs within the funding available.
- 4.4 When assessing the impact of budget reductions on output delivery, we have taken account of the fact that inflation has mainly been lower than we assumed in our final determination for PC15 and the capital efficiency challenge which forms an integral part of the final determination. Lower inflation and improved efficiency should allow the company to deliver more for less, and we expect the company to build these opportunities into its medium term plans.
- 4.5 Our review of delivery shows that some sewerage projects, which deliver priority nominated outputs in PC15, continue to be subject to delay. An update of our PC15 mid-term review analysis indicates that funding should have been sufficient to deliver its nominated outputs to date. The fact that these projects have been re-profiled to the last year of PC15 increases the risk that some will not be delivered as planned and will carry over into PC21.

Expenditure by purpose

- 4.6 The allocation of investment by purpose in 2018-19 is shown in Figure 4.1 below. Investment to maintain existing assets (base maintenance expenditure) is 56%, a decrease of 5% from the previous year. The remaining 44% is allocated between improvements in quality, improved services to consumers and growth.

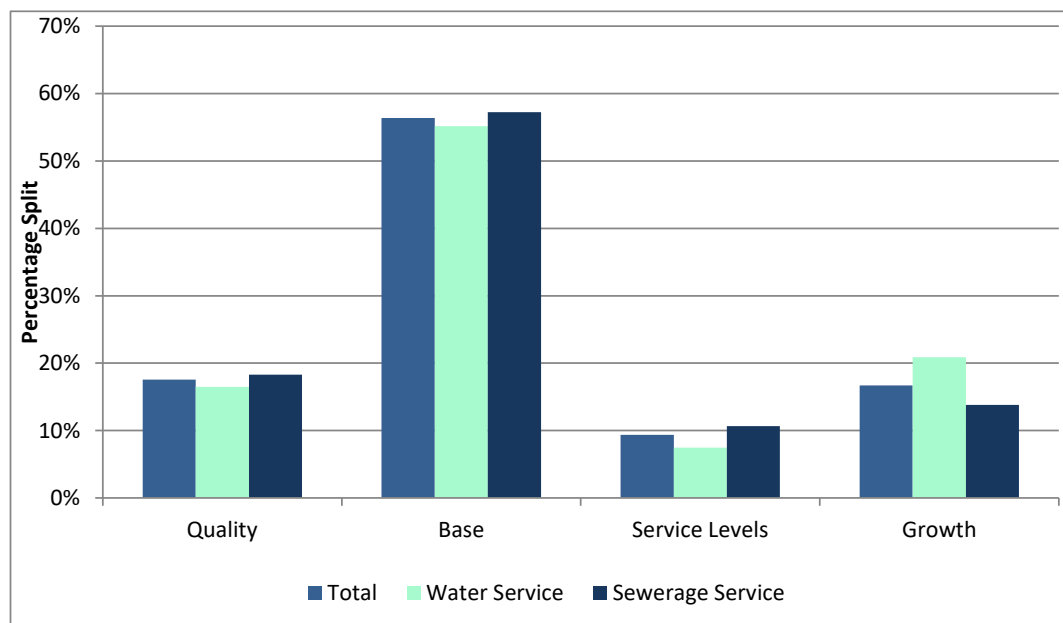


Figure 4.1: Allocation of investment in 2018-19 by service and purpose

- 4.7 The investment to maintain the company's existing assets and the service they deliver is the largest element the company's capital programme by proportion. In 2018-19, the company invested £96m in base maintenance contributing to an overall investment of £371m in the price control period to date. This remains £14m higher than the allowance in the PC15 final determination in nominal terms.
- 4.8 However, because inflation has generally been lower than assumed in the final determination for PC15, we would have expected the company to have spent less maintaining serviceability. NI Water's ability to deliver the outputs defined for the PC15 period will depend on it managing the balance between 'base' and 'enhancement' expenditure effectively over the period as a whole. This should take account of movements in inflation and be informed by associated performance, including serviceability trends.

Expenditure profile

- 4.9 In previous Cost and Performance Reports, we have highlighted a consistent annual cycle of expenditure. Peak levels of investment occur in the winter

months and expenditure is at its lowest level in the first half of each year. Figure 4.2 shows that this trend has continued throughout PC15 although it has become less pronounced over time. This cycle of investment, driven by annual spending constraints, remains disruptive for the supply chain and detrimental to efficient delivery and could be further mitigated by longer term budget allocations and end of year flexibility.

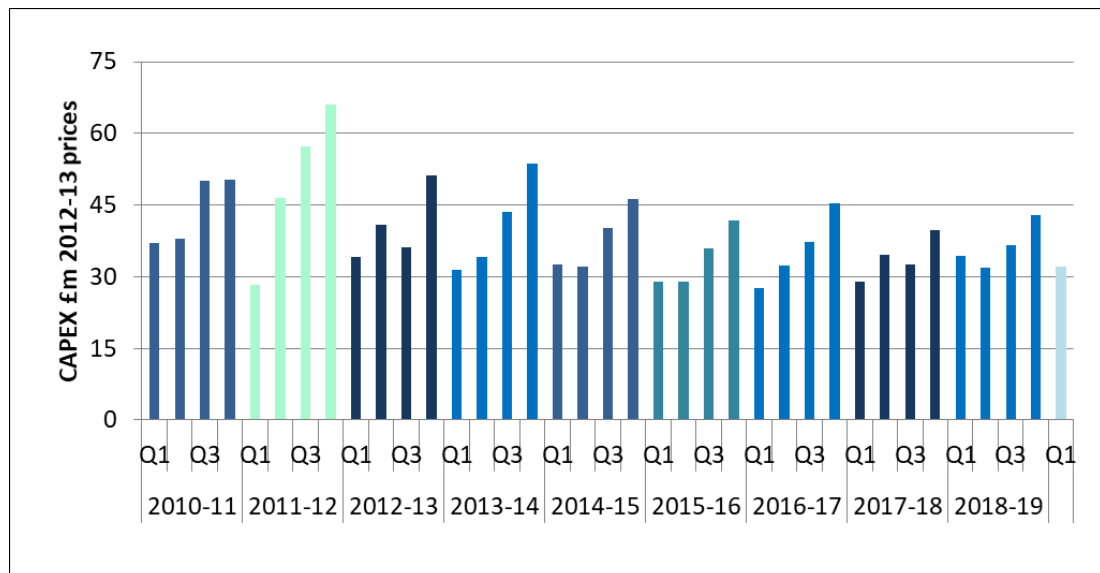


Figure 4.2: Capital investment from 2010-11 to 2019-20 Q1 by quarter

In PC15 delivery has been affected by reductions in the public expenditure capital budget available to NI Water and it has had to respond to the challenges which come from project development and procurement. However an update of the analysis undertaken for our PC15 mid-term review indicates that all the outputs identified in the PC15 final determination should be deliverable over the period as a whole. We will continue to assess cumulative delivery over the remainder of PC15 on this basis, taking account of changes in budget, inflation and the delivery of capital efficiency.

5. Development Objectives

- 5.1 The promotion of long term planning was a key component of our approach to PC15. In previous PC15 cost and performance reports and our PC15 mid-term review we noted concerns over progress on a number of the key development objectives included in the PC15 final determination. These are funded and considered critical to improving NI Water's planning capability and better informing investment planning for PC21.
- 5.2 NI Water has submitted its PC21 business plan on 31 January 2020 and we will assess the extent to which the company has delivered its PC15 outputs and objectives as part of our determination process. This will include any funded development and preparatory work.
- 5.3 As part of this process we will make regulatory adjustments to take account of variances to planned delivery once we have allowed for changes in inflation and the public expenditure allocations during the PC15 period.