

Summary of capital outputs

The table below shows the work programme that NI Water is required to undertake in the years 2013-14 and 2014-15 to maintain and improve levels of service and to improve compliance with drinking water quality.

Base maintenance	<ul style="list-style-type: none"> Investment in the existing assets to maintain levels of service to existing consumers. Completion of planned safety work at impounding reservoirs.
Maintain and enhance consumer service	<ul style="list-style-type: none"> Investment in trunk mains to Newry and Belfast to improve security of supply. Investment in the water distribution network to reduce interruptions to supply and reduce the number of properties supplied at low pressure by 288. Investment in the sewerage network to alleviate the risk of internal flooding at 67 domestic properties. Investment in systems and management to improve NI Water's response to consumer queries and complaints.
Improve water quality compliance	<ul style="list-style-type: none"> Completion of two water treatment upgrades to secure the quality of drinking water. Continued investment in water distribution mains, to improve the water quality at the tap, as part of a programme to rehabilitate a further 445 km of mains.
Improve environmental compliance	<ul style="list-style-type: none"> Investment in 38 wastewater treatment schemes to improve the quality of discharge from works >250 population equivalent. Upgrading of 84 unsatisfactory intermittent discharges to meet quality standards.
Growth and supply demand balance	<ul style="list-style-type: none"> The company will be able to continue to connect new properties to the water and sewerage network. Investment at sewage treatment works will continue to release development constraints resulting from a lack of capacity.
Improve sustainability	<ul style="list-style-type: none"> Improvements to existing assets, levels of service and quality enhancements, will contribute to a sustainable service. Further reductions in leakage will reduce water lost, targeting the sustainable economic level of leakage (ELL). The company will determine a sustainable long run ELL which will inform leakage targets for PC15. The proportion of renewable energy used will increase and energy efficiency measures will be implemented. NI Water will extend the sustainable catchment management approach it has developed with stakeholders. A drought plan will be prepared to assess how NI Water would respond if drought conditions were to exceed those planned for in the water resources management plan. NI Water will continue to improve its asset data including water supply area investigations and drainage area plans. Feasibility and development work will be undertaken to ensure the continuity of output delivery into PC15.

The main final determination report, technical annexes and consultation responses to the draft determination are all available to view on our website www.uregni.gov.uk



2013 to 2015 price control final determination: summary

Background

The Utility Regulator's (UR) role is to promote the interests of water and sewerage consumers and ensure that they receive best value for money. Through our price control process, we determine how much revenue NI Water requires in order to be able to deliver water quality, environmental and customer service objectives at the lowest reasonable overall cost to consumers for a set period of time. We then set price limits for NI Water in line with this revenue requirement.

This final price control determination (called PC13) sets out our price limits for water and sewerage services for the two years 2013-15. Our PC13 determination states that NI Water requires £703 million of revenue for the two-year period. This assessment is based on our benchmarking of the company's costs and our objective scrutiny of its performance. We have also taken into account the responses we received to our draft determination consultation (which closed in early November).

Indications are that NI Water will successfully deliver its first regulatory price control, covering 2010 to 2013 (called PC10). This will have saved consumers more than £91 million over the three-year period. This final determination now challenges NI Water to deliver a saving of £58 million, over the shorter 2013 to 2015 period.

Key benefits

Lower charges for consumers - charges will fall by an overall average of 6% below inflation in both 2013-14 and 2014-15.

Reduction in charges: typical consumer bills (£)

	Actual 12-13	NI Water 13-14	UR 13-14	NI Water 14-15	UR 14-15	NI Water PC13 saving	UR PC13 saving
Bills (2012-13 prices)							
Average notional household	424	418	400	414	377	16	71
Typical unmetered	273	259	253	247	234	40	59
Typical small metered	382	370	356	357	333	37	75
Typical large metered	3,468	3,356	3,237	3,248	3,022	332	677

Note: The notional household charge is provided as domestic consumers are not billed.

A more efficient company - for every £1 that comparative water companies in England and Wales spend in operating their businesses, NI Water spends £1.62. We are challenging the company to reduce this 38% operational efficiency gap at a rate of 5% per annum.

Investment in water and sewerage assets - we have allowed for £324 million of prioritised and targeted investment, maintaining the efficiency levels in PC10, to deliver specified infrastructure improvements.

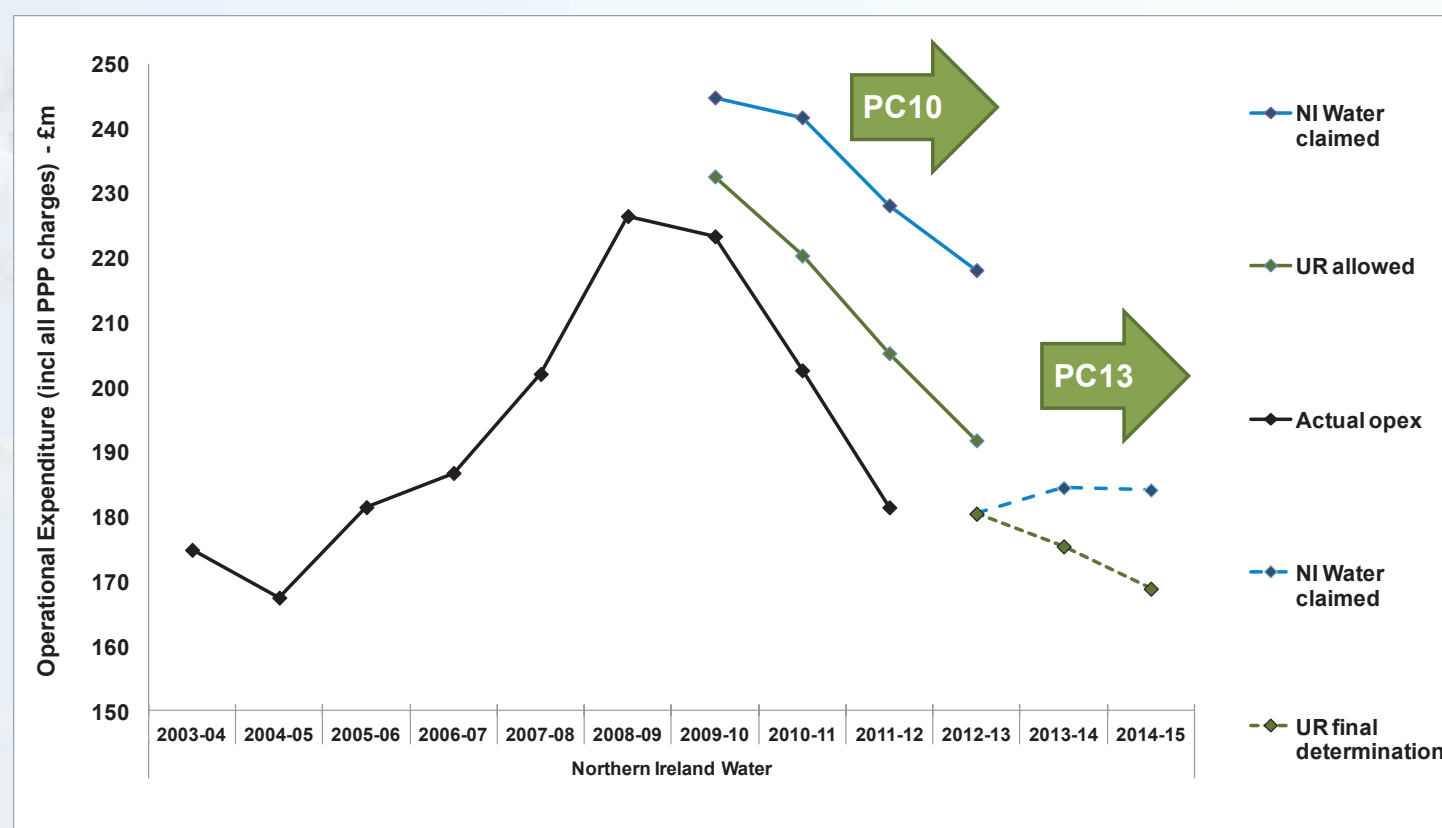
Higher levels of service - an improvement in the overall performance assessment or 'OPA' score, moving from 131 at the start of PC10 to 215 by close of PC13. This will narrow the gap to the average water company score of 290.

The operational efficiency challenge

Since economic regulation was first introduced in 2007, NI Water has steadily improved its operational performance, while at the same time reducing its operating costs. At the 2010-13 price control, the operational efficiency gap compared with the best performing company in England and Wales was assessed as 49%. For PC13 it has been assessed as 38% for the 2010 base year.

This efficiency gap means that for every £1 that comparative companies in England and Wales spend running their operations, NI Water now spends £1.62. This compares with £1.96 in 2007.

The operational efficiency improvements during PC10 and the challenge provided by the PC13 final determination are shown in the graph below.



The graph shows NI Water's claim, our allowance and the company's outperformance of PC10. PC13 challenges the company to reduce its operating costs by a further 5% per annum over the two-year period. The company's challenge to itself was a reduction of 1.6% a year. In its business plan, NI Water indicated that operating costs would need to rise over the period.

NI Water outperformed the PC10 efficiency challenge for operating costs. The company's management must now rise to the challenges ahead. In this way, billed customers and taxpayers will not have to pay more than is necessary for their vital water and sewerage services.

NI Water is being challenged to achieve what other companies elsewhere have already delivered. Of particular note is Scottish Water which reduced its operating costs by almost 40% over eight years, while at the same time continually improving services to consumers.

Differences between the draft and final determination

Increase in the allowed for revenue

We have increased the revenue allowance in our final determination by just over £12 million. The majority of this (some £8.4 million) is attributable to a reduction in the rate at which NI Water is being challenged to reduce its 38% operating efficiency gap with its comparators, from 6% a year to 5%. The remaining difference reflects a combination of smaller adjustments, both positive and negative, primarily resulting from new data.

Rate of reducing operating costs

We have decreased the rate at which NI Water is challenged to reduce its operational costs. We made this change in response to the company's strongly held concerns, that we had not taken sufficient account of the constraints arising from its status as a non departmental public body (NDPB). While we agree that the current model is not ideal, and have reduced the rate of challenge, the hard evidence is that NI Water has, to date, delivered operational efficiencies of more than 6.9% a year, in spite of operating as a NDPB.

Regarding the company's statement that efficiencies to date have been easier to deliver, there still remains a material efficiency gap for delivery of the efficiency challenge. The journey that NI Water is being asked to follow is not uncharted.

The perceived NDPB barrier

NI Water's business plan and response to the draft determination did not persuade us of the quantum of the impact arising from its NDPB status. We accept that the company may incur additional administration costs (for which we have made an allowance), and other burdens. However, as a result of its NDPB status (and the absence of domestic charges) the company has to deal with fewer consumer related issues.

Public expenditure funding

NI Water raised concerns regarding the adequacy of public expenditure funding to deliver this price control.

For PC10, we amended NI Water's licence in recognition of its dual status, operating within both the public expenditure and regulatory price control regimes. This resulted in an agreement between ourselves and the Department for Regional Development. The agreement addresses any public expenditure capital funding shortfall, with appropriate changes to price control outputs. It also provides a process for reviewing any operational pressures that arise; facilitating the company to submit a justified case for review. These processes have been revisited and will apply during PC13.

An issue that may arise during PC13, is a possible cut in the public expenditure resource (operating costs), below the price control allowance. It would not be appropriate or indeed feasible for this issue to be resolved by increasing charges to customers. We have liaised with officials from both the Department for Regional Development and the Department of Finance and are assured that such issues will be managed in the same way that similar issues are dealt with for other NDPBs. We will continue to engage with all parties on such matters.

Our engagement with both departments has also brought a transparency and understanding of our determination. It has led to acceptance of the need for public expenditure to fund 'spend to save' voluntary retirement and business improvement initiatives so that consumers do not pay twice.