PC21 final determination: Key point summary

The PC21 price control determines NI Water’s price limits and outputs for the six-year period from April 2021 to March 2027. The price control protects the interest of Northern Ireland consumers by challenging NI Water to deliver high quality, value for money water and sewerage services.

Much of NI Water’s business plan and the PC21 price control reflects the on-going operation and maintenance of water and sewerage systems. However, three strategic issues focussed on within this price control will define the development of water and sewerage services over the medium to longer term. These are:

* **Development constraints.** During PC21, NI Water will only begin to address the current development constraints and lack of capacity in sewerage networks and wastewater treatment works. Additional investment will be required in future price controls to deal with further development constraints and future needs. This presents a wider challenge on how economic development can be supported while the necessary investment is delivered.
* **Increasing capital investment.** NI Water plans to deliver outputs requiring investment of £2.08bn in nominal terms, an increase of 87% in real terms compared to the previous price control, PC15. This will place further pressure on public expenditure budgets. However, without this investment, NI Water will continue to breach statutory environmental obligations and will fail to alleviate development constraints. The increase in investment allowed over this six-year price control will need to be matched by a corresponding funding commitment to ensure all the benefits are fully realised.
* **Long-term tariff stability.** To ensure greater stability in tariffs over the medium term, taking account of long-term capital investment needs, we have set an overall price limit of zero (excluding inflation) for the remaining years of this price control period. We will continue to engage with both NI Water and the Department for Infrastructure (DfI) on long-term sustainable funding for NI Water.

**Summary of key price control decisions**

**Operational expenditure**

Between PC15, the previous price control, and now, NI Water has reduced their efficiency gap with similar companies in England and Wales from 22% to 6%. PC21 requires NI Water to close the remaining efficiency gap to similar companies in England and Wales by the end of 2025-26. Operational efficiency improvements in PC21 will save consumers £62m over the price control period.

Figure 1 shows the profile of operational costs since our first price control, PC10. Additional increases at the start of PC21 (such as increased business rates) means NI Water’s costs will rise in the first year of PC21, before levelling out due to efficiency improvements over the price control period.



Figure 1: Actual and determined expenditure for PC10 to PC21.

**Capital expenditure**

This price control includes capital investment of £2,086m in nominal terms (£1,820m in 2018-19 prices). This includes investment of £529m (in nominal terms) of as part of the Living with Water Programme. Our determination for capital expenditure is 5.5% lower than the company’s updated proposals for PC21.

Over the PC21 price control period, £816m (45%) of capital investment (in nominal terms) will be required to maintain the existing assets and the service NI Water currently delivers. The remainder will enhance capacity and service including addressing development constraints.

Development work will also be necessary to confirm efficient costs for investment for parts of the capital programme at the PC21 Mid-term Review.

**Revenue and bills**

We have determined a cost of capital of 2.0% (average) over PC21. This is lower than the company’s business plan and will save consumers £135m in revenue (nominal).

The increase in capital investment in PC21 is financed through debt and equity that will be paid for by all consumers over the long term. To ensure that today’s consumers make a balanced contribution towards the repayment of this investment, we have included additional revenue of £128m in PC21.

Final determined revenue for PC21 of £2.7bn is £0.1bn lower than the company’s business plan and our draft determination mainly due to lower inflation forecasts. The overall weighted average price limits (K factors) are zero in real terms relative to RPI, apart from 2021-22 in which tariffs were approved prior to the this Final Determination. The impact on typical water and sewerage bills is shown below.

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| **Table 1: Impact on typical consumer bills (£ in 2020-21 prices).**  |
|  | **Actual 2020-21** | **Average bill over PC21** | **Change from 2020-21** |
| Average notional household  | 421 | 416 | -5 |
| Typical unmetered | 298 | 293 | -5 |
| Typical small metered | 397 | 378 | -19 |
| Typical large metered | 3647 | 3476 | -171 |

**Key benefits**

Our proposals will result in:

* **Increased investment in water and wastewater services:** NI Water will begin to address a lack of capacity in wastewater services and start to relieve development constraints.
* **Lower costs of financing investment:** A reduction in the cost of financing investment will save consumers £135m.
* **Improved efficiency:** By the end of PC21 NI Water will operate at an equivalent level of efficiency to the upper quartile of similar companies in England and Wales at today’s level.
* **Improved service:** Existing performance measures for pressure, interruptions to supply, flooding risk and pollution incidents will improve. New consumer service measures and targets will drive incremental and continuous improvement, with an increased focus on vulnerable consumers.
* **Consumer Protection Programme (CPP):** Our determination recognises that vulnerable domestic consumers require additional support through bespoke regulatory and company interventions. This includes activities such as vulnerable consumer identification, assistance, staff training, Customer Care Register delivery and monitoring and reporting. It will extend into senior management leadership and company ethos around consumer vulnerability issues.

A summary of key outputs for PC21 is included in Table 2.

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| **Table 2: Key outputs for PC21** |
| * Investment of £816m in nominal terms to maintain the performance of the existing assets and the service they provide, delivering stable serviceability.
* Further reductions in the number of properties at risk of sewer flooding, properties with low pressure, interruptions to supply and pollution incidents.
* Improving consumer service driven by new consumer measures focusing on vulnerable consumers / Customer Care Register. New headline targets for Net Promoter Score, rate of first point of contact resolution (customers who contact NI Water) and number of unwanted calls.
* Improving consumer protection through the delivery of the CPP best practice framework. Improvement in vulnerable consumer identification, assistance, staff training, Customer Care Register delivery (including volume, reach, awareness and promotion), and monitoring and reporting.
* Achievement of the sustainable economic level of leakage by the end of PC21.
* Investment in 19 schemes at 17 water treatment works to maintain and improve water quality.
* Construction of 14 water trunk-main schemes to and improve the resilience of supply in areas severely affected by major incidents in the past.
* Delivery of 4 new water storage tanks to balance flows in the network and improve resilience in the event of pipe burst or work outage.
* Replacement or renovation of 838 km of water mains to address interruptions to supply, low pressure and water quality. Replacement or renovation of 61 km of sewers that are collapsing or cause frequent blockage.
* Investment to enhance 45 wastewater treatment works serving a population equivalent greater than 250 and 36 small wastewater treatment works achieve environmental discharge standards and accommodate development.
* Investment to improve the quality of 136 intermittent discharges to comply with environmental standards and accommodate development.
* The improvements above will address development constraints in 12 larger conurbations and 37 towns and villages.
* Proactive replacement of 11,064 lead communication pipes at consumers properties in addition to lead pipe replacement as part of the water mains rehabilitation programme ad in response to sample failures.
* Measures to improve sustainability and reduce the climate change impacts including: sustainable catchment management (SCAMP) and investment in renewable energy generation.
* Completion of sewerage drainage area plans to inform and optimise investment in the sewerage network and inform development decisions.
* Ongoing investment in management and general facilities to support the delivery of service, improve interactions with consumers, improve efficiency and make the service more sustainable.
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