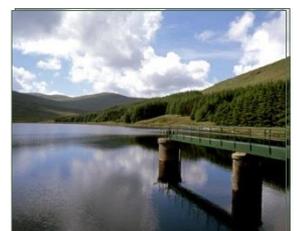


Price Control for Water and Sewerage Services 2021-2027

Our overall approach
29 June 2018



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. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

Our Mission

Value and sustainability in energy and water.

Our Vision

We will make a difference for consumers by listening, innovating and leading.

Our Values

Be a best practice regulator: transparent, consistent, proportional, accountable, and targeted.

Be a united team.

Be collaborative and co-operative.

Be professional.

Listen and explain.

Make a difference.

Act with integrity.

Abstract

This document sets out the Utility Regulator's overall approach to the development of the next water and sewerage service price control (PC21) which will determine outputs and funding for the six year period 2021-2027. It sets out the background and context of the price control process and considers key issues which we aim to address, including how we will work with the Principal Stakeholders to determine an efficient, consumer focused package of outputs. It includes a timetable for the development of the price control leading to a final determination in December 2020. This overall approach identifies further work to be done on individual topics and identifies when we will publish further information on these aspects of the price control.

Audience

Our overall approach to PC21 is primarily of interest to the water sector and the consumers it serves. It highlights the role of the water industry Principal Stakeholders (CCNI, DfI, DWI, NIEA, NIW and the UR). The general approach and timetable it contains may be of interest to other regulated companies, professional bodies and community/voluntary sector organisations.

Consumer impact

Through the PC21 Price Control we will determine an efficient, consumer focused package of outputs and funding for NI Water for the period 2021-2027. To set this work in context, the revenue determined for NI Water in our last 6 year Price Control (PC15) was £2.3 billion, which is recovered through a combination of direct charges to non-domestic consumers and subsidy from the NI Executive in lieu of domestic charges.

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Foreword

The Utility Regulator's primary role within the Northern Ireland water industry is to promote and protect the interests of the consumer. One of our most important tasks is determining price controls that make sure consumers receive the best value for money. Our price control process results in a contract between the Regulator and the company which agrees the money the company requires to provide efficient services and how much it is allowed to charge. For domestic users that charge is met by Government subsidy but minimising the cost is just as important.

Price Control 2021 to 2027, referred to as PC21, will be our fourth price control for NI Water. Our initial price controls were of shorter duration and focused on closing the efficiency and performance gap between NI Water and its comparator companies. Our third price control PC15 began to address longer term sustainability within a six year price control period. This strategic approach aimed to promote long term planning and delivery of the aims and policy objectives of the long term water strategy "Sustainable Water", which was developed by the Department for Infrastructure working with other principal stakeholders.

PC21 provides an opportunity for NI Water to deliver on the long term planning developed through the PC15 process. In this context, we expect NI Water to set out a clear business strategy and 6 year plan for the delivery of water and sewerage services throughout the PC21 period which will underpin the health of our community, the quality of our environment and will support sustainable economic growth.

We have developed our approach to PC21 on the assumption that the current arrangements for governance and funding will continue. The fundamental building blocks of our price control are clear outputs, a determination of efficient expenditure, a robust plan for delivery and a focus on consumer service. All these, supported by robust benchmarking, will continue to be essential components of any good governance model.

Consumers remain at the centre of our consideration and we look to NI Water to build on the consumer engagement already being carried in PC15 to ensure that consumers' views inform and influence policy and investment decisions.

Our approach sets out a timeline for the PC21 price control process and we look forward to continuing to working with NI Water and the water industry statutory stakeholders in the Water Stakeholder Partnership Agreement as PC21 contributes to our common objective - *"Getting water and sewerage services right for today's and tomorrow's consumers and taxpayers through good governance that achieves the right balance of efficiency, fairness, affordability, sustainability, value for money and quality."*

Roisin McLaughlin

Director of Finance and Network Assets

1 Introduction

1.1 Our role in protecting consumers' interests

Our role is to promote the interests of water and sewerage consumers. One of the ways in which we do this is by setting prices that allow NI Water to deliver water quality, environmental and customer service objectives at the lowest reasonable overall cost.

Our primary duties, which are defined in law, are to:

- protect the interests of consumers;
- ensure that NI Water carries out its functions properly; and,
- ensure that NI Water is able to finance its functions.

We are a non-ministerial government department, accountable to the NI Assembly; we work closely with the Department for Infrastructure. We hold ourselves accountable to consumers by consulting on our work and publishing information and reports on NI Water's performance.

Overall limits on how prices can rise, or are required to fall, are set through a process called price controls. At the price control we also set out the outputs that NI Water is required to deliver.

At present, domestic consumers are not charged directly for water and sewerage services and the decision on whether to change the arrangements has been deferred. As a result, NI Water is dependent on government subsidy for more than 70% of its funding. The company raises around 20% of its revenue from direct charges to industry, with the remaining 10% coming from charges for road drainage.

The price control process must therefore start with the public expenditure budget allocation in mind. Working within that budget allocation, we must ensure that the contribution from consumers is proportionate and that outputs and improvements are maximised and clearly defined. In doing so, we seek to ensure that NI Water delivers best value for money for all consumers.

In carrying out price controls we follow the five principles of better regulation. These are accountability, consistency, proportionality, targeting and transparency.

1.2 Other principal stakeholders

When we carry out price controls we do not operate in isolation, but work closely with the principal water stakeholders under the Water Stakeholders Partnership Agreement¹. In this section we briefly outline their roles and how their work impacts on water and sewerage consumers. In Chapter 4 we outline our proposals for stakeholder engagement in the PC21 process.

Northern Ireland Water

NI Water is responsible for providing water and sewerage services in Northern Ireland. It is the only statutory water company in Northern Ireland; it operates in accordance with company legislation and is subject to economic and quality regulation.

NI Water is wholly owned by the government. The Minister for Infrastructure acts as both the sole shareholder and policy maker and government provides a subsidy to cover the provision of water and sewerage services for domestic consumers. In view of the level of funding provided by government, NI Water is also classified as a Non-Departmental Public Body for public expenditure purposes.

The Department for Infrastructure

The Department for Infrastructure provides overall policy direction and is responsible, through the Minister and the Assembly, for the legislative framework for the water industry. The Department is responsible for paying a subsidy to NI Water in lieu of domestic customer charges.

The Shareholder Unit within the Department has responsibility for overseeing NI Water, and the company is directly accountable to the Unit for its performance.

The Department also includes a Water and Drainage Policy Division. The Division's primary function is to support the Minister' in providing policy, guidance and directions as part of a robust regulatory framework.

Under Article 7 of the Water and Sewerage Services (NI) Order 2006, the Department for Infrastructure may issue guidance to the Utility Regulator on the social and environmental policies to be attained. Therefore, in advance of a price control the Department publishes 'Social and Environmental Guidance' to inform the objectives and priorities of the price control. At PC15 the guidance reflected the Executive's agreed Long-term Water Strategy - "Sustainable Water" This Guidance also sets out the key strategic investment themes for PC21 aimed at delivering the long term vision to have a sustainable water sector in Northern Ireland.

¹ <https://www.infrastructure-ni.gov.uk/sites/default/files/publications/drd/water-stakeholders-partnership-agreement-2012.pdf>

The Consumer Council (CCNI)

CCNI is the consumer representative for water and sewerage customers. Its role is to ensure that policymakers take consumers into account when making decisions. It does this by providing information, undertaking education campaigns and research, and by producing relevant publications. It also helps individual consumers to resolve complaints which they have not been able to resolve directly with NI Water. Its aim for the NI water sector is that water and sewerage services are fair, affordable and sustainable.

The Drinking Water Inspectorate (DWI)

The Drinking Water Inspectorate, which is a unit within the Northern Ireland Environment Agency, is responsible for regulating drinking water quality for public and private supplies.

Its role is to ensure the supply of safe and clean drinking water by monitoring its quality and advising and enforcing on remedial actions and infrastructure investment when necessary.

Northern Ireland Environment Agency (NIEA)

NIEA is an agency within the Department of Agriculture, Environment and Rural Affairs (DAERA). It takes the lead in advising on and implementing the government's environmental policy and strategy. The Agency carries out a range of activities to support the government's key themes of sustainable development, biodiversity and climate change. Amongst the primary functions of NIEA are the regulation of both abstractions and discharges under the relevant legislation.

The Agency's key objectives are:

1. a full compliant regulated industry;
2. freshwater and marine environment at "good status";
3. a compliant crime free waste sector;
4. good habitat and landscape quality with species abundance and diversity; and,
5. promote environmentally sustainable development and infrastructure.

2 Context

2.1 Economic regulation of NI Water

Where a monopoly exists, consumers are not able to change supplier in order to receive better prices or service levels. In the absence of such competitive pressures, natural monopolies may act against consumer interests by:

- becoming or remaining inefficient, passing higher costs on to consumers through higher charges than would otherwise be necessary; and,
- accepting poor levels of service rather than seeking innovative or challenging ways to improve performance while reducing costs.

By subjecting monopoly service providers to external benchmarking and challenge, independent economic regulation helps ensure that they continue to act in the consumer interest.

Economic regulators also impose budgetary constraints on the regulated company or companies. These constraints are based on direct challenge of the company's proposals, supported by external benchmarking of cost and service to establish the company's relative efficiency and performance.

The provision of water and sewerage services tends to be a natural monopoly that is delivered by a single supplier over a defined geographic area. As the only statutory water company in Northern Ireland, NI Water operates as such a monopoly.

As NI Water is a monopoly service provider, a regulatory framework has been put in place to protect the consumers who use its services. In our role as economic regulator, we take action if we consider that the company is performing less well or operates less efficiently than its peers and we set challenging but achievable targets for improvement.

To ensure that a strong regulatory contract is in place between us and NI Water, we also establish a clear set of outcomes that NI Water must deliver. When selecting these outcomes we aim to strike a balance between outcomes that are clearly defined, while allowing NI Water the flexibility it needs to deliver them in the most effective way.

2.2 Overview of the price control process

Within a regulatory regime, the determination of a constrained budget to deliver a defined set of outcomes over a set period is achieved through the price control process. We work with NI Water and stakeholders to define and prioritise the outcomes which NI Water must deliver in a particular period and ensure that these are delivered efficiently and effectively.

A planned programme of work is necessary to manage the definition and prioritisation of outputs, the exchange of information between stakeholders, and the analysis, benchmarking and determination of efficient costs and associated outputs. This programme of work is delivered in a number of distinct stages:

- We develop our approach to the price control setting out the overall aims and approach to key areas and set a timeline for the delivery of the process.
- We engage with consumers and work with the principal stakeholders to identify and prioritise the outcomes that NI Water should deliver and develop key process building blocks such as information requirements and detailed methodologies.
- NI Water prepares a business plan that sets out its assessment of the funding necessary to deliver these outcomes.
- We assess the business plan to arrive at a determination of a challenging and achievable level of funding and outputs by benchmarking efficiency and performance.

A more detailed description of these stages and timelines is set out in Section 5 below.

2.3 NI Water’s governance arrangements

NI Water is a government-owned company. Because it relies on government funding for the majority of its revenues, it is also classified as a Non-Departmental Public Body for public expenditure purposes and it is subject to the rules that govern public expenditure. This hybrid arrangement adds complexity and funding is uncertain from year to year.

While we have developed our approach to PC21 on the assumption that the current arrangements for governance and funding will continue, the fundamental building blocks of our price control (clear outputs; a determination of efficient expenditure; a robust plan for delivery; and a focus on consumer service – all supported by robust benchmarking) are essential components of any good governance model.

2.4 Working within public expenditure limits

While the hybrid governance arrangements remain in place, the alignment of the regulatory price control process with the public expenditure process remains a key issue to be addressed in our approach to price controls.

We recognise that a primary constraint on the price control will be the level of funding available to NI Water from public expenditure. We will ask the Department for Infrastructure to provide a working assumption for the annual capital and resource budgets for the price control period as part of the draft Social and Environmental Guidance. We will ask for these working assumptions to be updated to inform our draft and final determinations.

Public expenditure is also subject to annual monitoring rounds which can result in reductions in planned expenditure or additional funding being made available. At the PC10 price control, we developed a Memorandum of Understanding (MoU) with the Department for Infrastructure supported by a Consequent Written Agreement which outlined how we would deal with changes in funding levels. NI Water's operating licence was modified to reflect the MoU. These documents were reviewed and updated for PC15. Further changes will be considered if necessary for the PC21 final determination.

3 Overview of our price controls

PC21 will be the fourth regulated price control for NI Water since the regulated company was formed in 2007. Since it was established, NI Water has made significant progress and has delivered improvements in customer service, drinking water quality and environmental compliance while continuing to reduce costs by improving efficiency. It has generally met or out-performed its price control targets. PC21 provides an opportunity to deliver further consumer benefits by building on the achievements delivered in the previous price controls which are outlined below.

3.1 PC10 (covering 2010-13)

NI Water's first regulated price control, PC10, covered the period 2010-13. A short three-year period was agreed with stakeholders to allow time for the company to improve its data and capability in order to increase confidence in future Business Plan submissions.

During PC10, NI Water made significant improvements in operational cost efficiency, beginning to close the efficiency gap with water and sewerage companies in GB.

3.2 PC13 (covering 2013-15)

The PC13 price control was also of short, 2 year duration. It allowed time to review governance arrangements and to develop a Long Term Water Strategy to inform future investment plans. In view of the short duration, we limited the scope of the review by relying on processes and data used for the PC10 price control, where these could be extrapolated with some confidence.

During PC13, NI Water improved the quality of service it delivered while continuing to deliver planned investment and improving efficiency of delivery.

3.3 PC15 – (covering 2015-21)

PC15 provided an opportunity to take a longer term strategic view of the provision of water and sewerage services and address the risk that a series of short duration price controls could compromise long term planning and efficient delivery by NI Water.

We increased the duration of the PC15 price control to six years to provide a more stable and predictable framework for efficient service delivery and, perhaps more importantly, to

facilitate the delivery of long-term sustainable outcomes in line with the Long Term Water Strategy². We also made provision for a mid-term review to:

- provide an opportunity to realign the determination to take account of changes in funding; and,
- provide an opportunity to implement innovative and sustainable solutions that might develop from the strategic studies and pilot projects which NI Water would carry out in the early part of the price control period.

We have recently completed the PC15 mid-term review. The key findings of the review are restated below.

In the first two years of PC15, NI Water's public expenditure budgets for both resource and capital have been reduced below the nominal levels we considered necessary to deliver the PC15 price control. However, NI Water has benefitted from lower levels of inflation than was expected. As a result its real operational expenditure remains in line with the post-efficiency levels determined for PC15 which should be sufficient to maintain service. There has been a real reduction in the level of capital investment in the first two years of PC15 and the delivery of some capital outputs have been delayed as a result. However, based on reasonable forward planning scenarios for capital investment, the company should have sufficient capital budget to deliver all of its defined PC15 outputs within the 6 year PC15 period. But it is unlikely to allow investment in additional necessary quality improvements, which may need to be deferred to the PC21 period. The reduction in expenditure in line with inflation is being passed on to consumers through RPI+K price cap regulation and the PC15 outputs are being delivered.

Our overall conclusion was that the PC15 final determination targets remain valid and should be used for planning and performance reporting for the rest of the PC15 period. The Mid-term Review has confirmed that the PC15 final determination was both challenging but achievable. We expect NI Water to continue to focus on the delivery of these priority requirements, notwithstanding the variations to annual budgets which may occur. This includes all the critical development work funded in the PC15 final determination, which the company is required to complete in time to inform its PC21 business plan submission.

² Sustainable Water – A Long Term Water Strategy for Northern Ireland

3.4 PC21 – delivering on long term planning

In PC15 we advocated the benefits of long term planning to deliver sustainable holistic solutions and set in place price control processes which would enable that objective to be achieved. These included:

- A six year price control with a mid-term review to manage uncertainty and providing time to develop holistic, sustainable solutions.
- Introduction of development objectives reflecting the work NI Water undertakes to develop its capability and introduce new techniques which will underpin the efficient long term development of the services it provides to consumers.
- Asking NI Water to set its 6 year Business Plan within an assessment of long term investment needs.

Part of our commitment to long term planning is to ensure that there is continuity between price controls which builds on the process established at PC15 and the on-going operational engagement between stakeholders such as the Output Review Group, the Consumer Engagement Oversight Group and the bilateral engagement between NI Water and the quality regulators NIEA and DWI.

At PC15, we considered the duration of a water industry price control and concluded that a 6 year price control with a mid-term review provided the optimal approach for the regulation of NI Water. The outcome of the PC15 mid-term review has shown that this 6 year planning horizon appears to be sustainable. NI Water has continued to deliver the defined outputs against an inflation adjusted budget and is delivering against the efficiency targets.

Therefore we propose to continue with a six year duration for PC21 which will cover the period 1 April 2021 to the 31 March 2027. As with PC15, PC21 will make provision for a planned review part way through the six year price control period.

The development of a price control is part of a continuum of assessment, planning and delivery. The development and delivery of each price control must consider the longer term. The cycle of six year price controls with a mid-term review introduced in PC15 went some way towards achieving this. PC21 should be seen as a continuation of the process of long term planning necessary to deliver the aims and objective of the Long Term Water Strategy.

In this context we have reviewed the aims of the PC15 process and concluded that they remain valid for the PC21 period within a context of the Long Term Water Strategy.

Therefore our aim is that the PC21 process will continue to:

- Clearly identify what consumers want and identify their priorities for water and sewerage services and show how these will be delivered and over what timescale.
- Provide a strong foundation for the long term funding of water and sewerage services, delivering long term improvement in service to consumers.

- Convert the outcomes identified in the Long Term Water Strategy to clear medium term goals and milestones which can be delivered by NI Water.
- Challenge NI Water to improve its efficiency and performance at an achievable and sustainable rate.
- Promote sustainable action to deliver affordable protection of water quality, the environment and natural resources through a holistic catchment based approach to water and sewerage provision.
- Embed climate change adaption and mitigation in the delivery of existing services and the development of future infrastructure.
- Promote long term planning and risk management in the Business Plan which will enable continuity of investment between years and between price control periods.
- Assess the 'right' long term level of investment in key areas such as asset maintenance, water main replacement, sewerage renovation, reducing flooding risk and demand management.
- Recognise the need for a flexible approach to asset delivery which will allow time to study, develop, plan and deliver sustainable, integrated, interventions with contributions from a range of stakeholders (including working and partnering with other water sector organisation and the community/voluntary sector) where this offers the best solution.
- Ensure proportionate regulation, including maximising the advantages of one-one regulation, through the use of shared data sets which are used consistently and provide a clear, common point of reference for all stakeholders in the development and delivery of the price control.

4 Our approach to key areas

4.1 Introduction

The PC21 price control will set NI Water's price limits for a six-year period, 2021 to 2027. It will do so in a way that ensures that the company's operational and investment costs can be met and ministerial objectives delivered effectively and efficiently, providing best value for money to consumers. This will include developing outputs and targets which can be used to monitor the delivery of long term planning objectives and the company's promises to consumers.

All aspects of NI Water's business will be considered and the objectives to be delivered will be tailored in light of the needs of consumers, the environment and cost. While we will focus on the six-year period, we will also consider the planning work necessary to support the effective and efficient delivery of service in the longer term.

While, the price control process must start with the public expenditure budget allocation in mind, it is important that NI Water first sets out the activities and expenditure necessary to deliver the services which consumers, the environment and the economy requires and then build the financial case for investment around that. Only then is it possible to consider and prioritise a plan of work within any budgetary constraints and to assess the impact of such constraints on current and future consumers.

This general approach aligns with the implementation of the Long Term Water Strategy. Our plan for PC21 is to build on this approach and embed a cycle of long term planning to address three themes:

- **Valuing Customers.** Our common purpose is to deliver the water and sewerage services consumers need efficiently. Our aim in PC21 is to clearly identify what consumers want and identify their priorities for water and sewerage services and show how these will be delivered and over what timescale. The outcome of PC21 should be consumer centred with clear performance commitments.
- **Safeguard the Future.** The price control must be based on a long term vision and each price control should support planning and delivery over the longer term. The development objectives necessary to improve capability and to deliver sustainable solutions should be clearly identified. Our price controls must be flexible enough to deal with emerging issues, allowing for managed change and the opportunity to innovate.
- **Owning delivery.** While stakeholders all have a part to play in the development of the price control, it will only be successful if the development and delivery of the Business Plan is owned by NI Water. We welcome the early work on consumer engagement where NI Water is building on its own on-going engagement processes

to identify what consumers want. It evidences the need for a plan which builds on the company's internal processes and is not regulator driven.

4.2 A proportionate approach

In addressing these key areas, we are mindful of the need to keep the regulatory burden to a minimum while addressing the information asymmetry that exists between us and the company.

We will apply a number of principles to ensure that our approach is proportionate.

We will adopt a light touch approach if:

- there is evidence to show that the company is comparatively efficient;
- past costs are a strong indicator of future costs; and,
- there is insufficient data to support a more robust approach.

We will adopt a more detailed approach if:

- the company is comparatively inefficient;
- past costs are a weak indicator of future costs; and,
- data is available for econometrics, serviceability measures, outputs, etc.

We would expect NI Water to develop the data necessary to support a robust assessment of expenditure and outputs. Where there is insufficient data, we would adopt an approach to funding which is prudent but conservative until the company can develop a robust approach based on sound data.

4.3 Valuing Consumers

Our common purpose is to deliver the water and sewerage services consumers need efficiently. The outcome of PC21 should be consumer centred with clear performance commitments. Consumers should be confident in the resilience of the service delivered.

Consumer centred

Our aim in PC21 is to clearly identify what consumers want, identify their priorities for water and sewerage services and show how these will be delivered and over what timescale.

In PC15 a major exercise of consumer engagement was carried out by NI Water to understand consumer priorities. This was supported by stakeholders working together in the

Consumer Engagement Oversight Group to advise and be informed about the development and application of consumer engagement.³

The Consumer Engagement Oversight Group has continued to work on the delivery of more meaningful consumer measures and on-going consumer engagement for PC15 including:

- A new annual consumer survey focused on consumer satisfaction and advocacy.
- The introduction of a new ‘Voice of the Consumer’ daily survey of customers who have contacted NI Water, producing real-time feedback to the company.

The PC21 price control provides an opportunity to build on the consumer engagement work carried out in PC15, the actionable data arising from the development of more meaningful consumer measures outlined above and good asset management data linking service to asset performance. This should be used to propose outputs which reflect the needs of consumers and are achievable. Given the six-year gap between PC15 and PC21, further consumer engagement, including surveys and deliberative research, is likely to be necessary to allow consumers to inform the development of the Business Plan and to test the plans and the commitments NI Water make for PC21.

Clear performance commitments

Having taken account of the views of consumers in the development of the Business Plan, it is important that clear performance commitments are made for the PC21 period.

In PC10 we defined a range of outputs with different degrees of certainty or flexibility as follows:

- **service level outputs** – which measure the level of service that consumers experience;
- **nominated outputs** – to achieve specific environmental discharge or drinking water quality standards that are defined by the quality regulators; and,
- **general activities** – such as a rate of replacement of water mains, where it was not possible to establish a clear link to service level outputs in the short term.

In PC15, we added **development outputs** which focused on the work which NI Water undertakes to develop its capability and introduce new techniques which are important for the long term improvement of the service delivered to consumers. Clear development outputs can support the cycle of long term planning allowing time to carry out studies, work with stakeholders on integrated solutions and assess innovative solutions. For PC21, we expect NI Water to make more definitive use of development objectives which are well defined, time bounded and have the support of stakeholders.

³ [Connecting with Consumers - A report on consumers’ priorities for water and sewerage services](#)

During PC15, work on the introduction of new consumer contact measures allowed us to make progress in reducing the regulatory burden on NI Water from rote duplication of the Overall Performance Assessment (OPA) customer service measures at PC10. A new, modern and flexible survey which includes our focus upon outcomes for the consumer, as measure by new customer satisfaction and advocacy metrics, replaced the old quarterly survey of customers who had previously contacted NI Water (for whatever reason). In PC21, it should be possible to set targets for improvement in these new consumer measures and consider what more can be done to both improve service, subject to engagement with consumers over what their expectations are for excellent customer service from NI Water.

We will review the continued use of the overall performance assessment (OPA) in light of Ofwat's continued use of company tailored Outcome Delivery Incentives.

In recent years, the company has made significant improvements in the data it holds on its assets, its performance and the impact that service failure can have on consumers. It has also carried out trials, investigations and projects which has developed experience of the delivery of more innovative, sustainable solutions. There is an opportunity in PC21 to show the benefits to consumers of this data and these new ways of working, and to promote new outputs and targets which reflect this.

Overall, there is an opportunity to ensure a clear line of sight between the PC21 price control and:

- Programme for Government targets.
- NI Water's Customer Promises.
- NI Water's Customer Charter.

and to ensure that these measures build on continuing engagement with consumers and feedback from consumers through their day to day interaction with the company.

The working groups described in Section 4.9 and the water industry Principal Stakeholders' Output Review Group (ORG) will provide a forum for the review of the development of challenging performance commitments for PC21.

Efficient delivery

Consumers benefited from the cost savings delivered by continuing efficiency improvements. We will continue discussing our new approach to benchmarking efficiencies with the company, building on our earlier workshop with the company and CCNI held on 28 March 2018. We will issue our Approach to Efficiencies with our draft Information Requirements on the 15 March 2019 and our Initial Draft Models on 30 June 2019. Early publication of our initial draft models and assessment of the scope for further efficiencies will enable the company to submit any draft special. Draft special factors will allow us to provide NI Water with early feedback prior to the submission of their PC21 Business Plan (including any final

special factors claim). Further information on our approach to operational and capital efficiencies is set out in Section 4.6 below.

4.4 Safeguarding the future

Sustainable delivery

In PC15 we developed our regulatory framework to reflect the fact that NI Water was operating in a changing environment, where rising consumer expectations, improved understanding, new European directives and an awareness of the economic value of a clean environment (and the potential impacts of climate change) would increase uncertainty and drive the need for higher performance and discharge standards. New ways of working are necessary to ensure that these improvements can be delivered in ways that are not disproportionately expensive or have significant carbon impacts. We noted that it was unlikely that the best solutions to these emerging issues would be provided by NI Water alone and the opportunity to move from asset-based solutions that are delivered in isolation by NI Water, to integrated, sustainable solutions developed by a range of stakeholders with a shared interest in the outcomes and which carry shared risk.

This aligns with the aims and policies of the Long Term Water Strategy and is consistent with the outcomes of the Executive's Draft Programme for Government.

At PC15, we asked NI Water to set out its plans to maintain the continuity of investment into PC21. In its business plan, we expect NI Water to set out how it has developed sustainable outcomes for PC21 through the assessments and planning carried out in PC15. Where further work is necessary to allow time to develop more sustainable/holistic solutions for implementation in the PC21 period, then NI Water should include development objectives in its plan setting out the scope and timelines for the completion of this work.

Asset maintenance investment

As part of the preparation for PC15, we published our approach to asset maintenance which set out our view on some of the techniques that NI Water could use to develop a robust assessment of asset maintenance investment, building on steadily improving asset performance and cost data. These techniques range from:

- backward looking techniques such as historical cost and serviceability trends; to
- the targeted development of bottom-up risk based assessments to understand the link between asset performance and service, predict future trends and identify the best way to maintain or improve service (including capital and operational interventions).

However, for PC15 NI Water was not able to provide a robust assessment of future asset maintenance expenditure based on risk to service. In the absence of this assessment, we

estimated a reasonable allowance for asset investment based on an econometric comparison with asset maintenance investment in England and Wales.

PC15 also included a development objective covering a plan for asset maintenance.

For PC21, we will review NI Water's progress on the development of its plan for asset maintenance. We will then review our approach to asset maintenance and publish an update of this document in September 2018. However, it remains a matter for the company to demonstrate the 'right' level of asset maintenance investment which balances the risk to long term service delivery with the cost to consumers.

A robust asset valuation and current cost depreciation estimate on a 'modern equivalent asset' (replacement) basis can provide verification of medium to long term asset maintenance investment. The valuation brings together asset information (type, size and age of the assets) with cost data for construction or replacement of the assets. Both are core information sets which we would expect the company to have to allow it to manage its assets effectively. The quality of an asset valuation is only as good as the quality of the data available. The development of the underlying asset and costing data to support effective data management is a more critical issue than re-estimating asset value. We will liaise with other stakeholders on the need for an updated asset valuation before asking for this to be produced.

Supporting economic development

As well as meeting current needs, the water sector must provide for the future development of housing and industry. The statutory Water Resource and Supply Resilience Plan provides a framework for the long term need for water resources. However, there is no similar framework in place for sewerage capacity and wastewater treatment.

Within a constrained budget, the priority for investment has been on water treatment and distribution as this can have an immediate impact on health. As a result, some sewerage networks and wastewater treatment plant operate at or beyond their design capacity. This limits opportunities for development and can lead to development constraints.

For PC21, we expect NI Water to inform stakeholders where a lack of capacity is constraining current or planned development. The company should provide an estimate of the cost of work necessary to support investment over the six year period and set out its methodology for allocating investment as development needs are confirmed.

Improving resilience

Water and sewerage services are essential for the well-being of consumers. Consumers should be able to be confident in the resilience of the service delivered. Major events experienced in the past, which resulted in loss of supply, exposed weaknesses in both the capacity of assets and the ability of the company to respond to such events. Since then significant improvements have been made including:

- the completion of additional trunk mains;
- the introduction of a winter condition in the Water Resource and Supply Resilience Plan;
- improvements to emergency planning procedures, including the ability to communicate with consumers during major emergencies; and,
- work to enhance storage capacity on the water network.

In its PC21 Business Plan, NI Water should identify work it thinks is still necessary to enhance the resilience of its network including:

- addressing issues identified during previous incidents and improved understanding of the performance of the assets; and,
- addressing emerging issues such as cyber security data protection.

The company should consider how it can continue to improve its support to the most vulnerable in society including during individual incidents and major events.

Innovation

Innovation and the productivity improvements it delivers is a key driver for improved service and efficient delivery. The PC15 determination included funding for some innovative proposals such as the development of NI Water's ICAT strategy.

The purpose of any innovation must be to reduce costs and/or to improve outputs that benefit customers. Therefore we would normally expect that any costs will be funded within the overall price control package and not from increased prices.

Where NI Water proposes that innovation is funded through increased prices for customers, we would regard the bar as being set high in terms of the evidence it would need to provide to justify such a request.

Firstly we would expect NI Water to set out clearly in its business plan submission why the cost of innovation, balanced by the cost reduction delivered, cannot be delivered within the overall price control package and articulate its rationale for it being funded through higher prices.

Our criteria for assessment of NI Water rationale will include, and may not be limited to, the following:

- quantified and robust costs and benefits;
- need for, or rationale in support of, additional funding;
- how NI Water has arrived at their chosen bid for innovation(s) and how this interacts with other innovation investments it plans to deliver under the normal price control regime;

- how such a bid was identified/prioritised and justified in consultation with consumers and NI Water's wider stakeholders;
- why a barrier exists towards innovation which requires some form of regulatory action to allow it to progress and the consequences of the innovation(s) not happening;
- what deliverables may be expected for local consumers from research and development or trials;
- the proposed treatment of risk and reward;
- a description of how successful innovation(s) would be efficiently rolled out and how NI Water's innovation strategy would be reviewed and updated across PC21; and,
- how innovation planned for PC21 is different to anything that has occurred previously, whether within N Water or within the wider water sector.

The six year cycle of price controls, with a mid-term review, provides a framework for the development and testing of innovation proposals in one 3 year period, moving to implementation in the next. Innovation projects should be identified as development outputs with a defined scope, outcome and timelines.

Living with Water Programme

As PC15 was being delivered, the Living with Water Programme was initiated to develop a Strategic Drainage Infrastructure Plan for Belfast. This aims to provide integrated sustainable solutions which will alleviate the risk of flooding, enhance the living environment and sustain economic growth.

The programme offers opportunities for careful study and integrated working to optimise the costs of interventions. Although detailed work has yet to be completed to establish the cost and profile of expenditure necessary to deliver the programme outcomes, it is expected that significant investment will be required during the PC21 period and that much of this will be delivered by NI Water. It will be necessary for stakeholders to work together to optimise alignment of the Living with Water Programme with PC21 and vice versa to maximise consumer benefit.

We expect NI Water's Business Plan submission to take account of the Living with Water Programme and the impact of any interdependencies with PC21 such as base maintenance allocation, opex from capex, or its commitments to consumers. Work is required to determine which elements of the Programme will be delivered through the PC21 Price Control and which fall outside the scope of the PC21 Price Control and we will engage with stakeholders on this issue.

4.5 Owning delivery

The development of long term strategic plans, which take account of stakeholder and consumer views and consider long-term economic, environmental and social sustainable development, is key to the effective and efficient delivery of improvements within the water sector.

In our information requirements for PC13 we began to develop a theme of long term planning, asking NI Water to ensure that its plans for PC13 looked beyond the end of the price control and included the design and development of projects for the early years of PC15.

In PC15, we expanded on this theme, setting out an approach which would support sustainable delivery over the medium to long term.

This approach supports the LTWS which provides the strategic framework for delivering the short, medium and long term improvements required within the water sector in Northern Ireland. The associated implementation plan promotes ownership across the broad range of stakeholders that need to contribute to its successful delivery.

PC21 is based on continuity of the approach developed in PC15 with planning work carried out in PC15 providing the basis of the investment and operational plans the company will deliver in PC21. It should form the foundation of a continuous process of assessment planning and delivery.

Our approach to the PC21 Price Control, which includes an option for a mid-term review and the opportunity to use well defined, time bounded development objectives, facilitates this process of assessment, planning and delivery.

While all stakeholders have a part to play, it is only NI Water which can develop and deliver the detailed plans which will secure sustainable services long term. While our approach sets out the need for asset management planning and consumer engagement (for example), it is NI Water's asset management plan to be delivered for the benefit of NI Water's consumers that the Business Plan should include.

In this respect we believe that the price control processes should not become a barrier to NI Water taking ownership of the development and delivery of its plan for consumers for the PC21 period. We welcome the early work on consumer engagement, where NI Water is building on its own on-going engagement processes to identify what consumers want. It demonstrate the benefit of a plan which builds on the company's internal processes and is not regulator driven. We look forward to working with NI Water as it develops a plan for PC21 with builds on its internal processes, has clear links to its annual operational plans and provides the foundation of its Customer Promises.

4.6 The scope for efficiencies

Assessing the scope for further efficiencies

Our approach to efficiencies will encompass the following elements:

- We will set a challenging efficiency target for NI Water. In doing so, we will take account of the duration of PC21 and the scope this presents to plan for and achieve operational efficiencies alongside any existing planned transformational activities the company intends progressing in the run up to the start of the PC21 period.
- We will recognise NI Water's good progress in delivering efficiencies, especially around its operational efficiency gap (last properly tested using 2012-13 data at the time of setting their last price control period PC15).
- We will develop new ways of measuring NI Water's relative efficiency, incorporating data from the England & Wales comparator companies. In doing so, we shall endeavour to adopt some of our efficiency modelling approaches developed more recently in the gas and electricity networks price controls.

We will ask the company to establish its baseline expenditure cost and identify foreseeable reductions, or increases, in costs for future years. Our approach to base-lining of operating expenditure going forward will be to:

- adopt our twin tests of 'newness' and 'exogeneity' to establish the need for increased spending before we allow increased costs to be borne by consumers (and taxpayers) as part of the PC21 regulatory contract;
- ensure that consumers do not pay for investments that have already been funded under previous price controls (PC10, PC13 and PC15), including the Strategic Business Plan (SBP) transition years to the company's incorporation; and,
- assess the requirement for continued funding of transformation projects alongside voluntary early retirement (VER)/voluntary severance (VS) to enhance efficiency deliverability.

Our approach for the base year for expenditure and modelling will depend in large extent on whether we choose to adopt new efficiency models which rely upon (i) a single year of data, including NI Water and England & Wales datasets or (ii) pooled or panel data, drawn from more than a single year of data (and whether such a dataset is drawn from an equal or unequal number of years data by company).

We expect to ask NI Water for a submission detailing its atypical or exceptional costs and a submission of any 'special factors' which explain why the company's expenditure might be higher or lower than comparative benchmark costs.

We are minded to adopt the triangulated approach which we first used when advising the Minister for Regional Development of the scope to increase efficiency targets during the SBP years. We adhered to this approach during subsequent price controls. Triangulation marries detailed econometric analysis and examination of likely frontier shift to the realities of previous attempts to reduce operational spend rapidly within similar regulated industries, such as Network Rail and Scottish Water.

With the buy-out of the Alpha PPP, we will examine whether it remains appropriate to examine PPP costs separately, applying only a proportion of frontier shift to such costs over a price control period. Our aim will be to make sure that the costs that are passed through to consumers are reasonable, appropriate and that NI Water is managing to maintain these activities efficiently.

With the passage of time, we do not envisage replicating the approach to operational efficiency we took at PC10 and PC15 for assessing efficiencies, as this no longer remains appropriate. We may continue to use some relative efficiency models to estimate an efficient level of spend for capital maintenance across PC21 and/or alternatively consider the application of more recent Ofwat modelling which combines operational expenditure with base or capital maintenance (botex modelling).

We will build on our previous development of regional price adjustments during previous price controls. This allows us to examine the cost differences resulting from the comparative advantage in Northern Ireland, where aggregates and construction wages tend to cost less.

Finally, we will consider whether our PC15 engineering-economic review of NI Water's procurement processes might benefit from a refresh at PC21, to indicate the scope for and extent of any remaining procurement efficiencies that the company might deliver across the PC21 period.

Assessing frontier shift

We are minded to adopt the same approach to frontier shift (equals real price effects or RPEs minus productivity assumptions) as at PC13 and PC15 and update accordingly for PC21. As a minimum and in line with our other more recent price controls in different sectors, we will consider including an annual update and commentary upon actual RPEs compared to those we have included within our price control.

Through our annual cost and performance reporting we shall then be in a position to include reference to specific windfall gains and/or adverse conditions affecting the company's cost base. With greater knowledge of where prices for different goods and services have travelled, we shall be in a much better informed position to comment upon whether the company has out or under-performed our regulatory settlement through real efficiencies (or whether some out-performance has, for example, transpired as a result of more favourable inflationary conditions).

We shall also consider the practicalities and arguments in favour of introducing a form of indexation of RPEs throughout the PC21 period, using a symmetrical ex post adjustment mechanism. This mechanism would also require examination of whether or not any cap and/or collar is necessary, around any materiality threshold.

4.7 Finance and tariffs

Price limit or revenue cap

We first discussed the possibility of using a revenue cap with the Department, NI Water and CCNI during PC15. In the end we retained a price limit, but said we would review again at the next price control. For PC21 we will review the option of using a revenue cap or alternative arrangement and will set out the pros and cons of each in a public consultation.

The calculation of price limits

We undertake detailed analysis to assess overall revenue and set price limits and developed a financial model in previous price controls to facilitate this. This has proved to be robust and was used for PC15. At this stage we expect to continue to use the same financial model for PC21, but will take the opportunity to review and update this based on our latest information requirements.

We will also make decisions about issues such as:

- the appropriate cost of capital and financial ratios;
- the number and type of current and future customers; and,
- the costs that will be legitimately incurred by NI Water in running its business.

It is possible that emerging issues, such as the treatment and payment of tax or a change from a price limit will require changes to the financial model. If these changes are significant it may become necessary to reissue the financial model at a later date and we will discuss the programme for doing so with the company.

4.8 Information requirements

We will continue to ensure that the information we require from NI Water for PC21 is proportionate but sufficient to:

- allow NI Water to communicate its business plan to us in a clear and effective manner; and,
- ensure that we can submit the plan to effective and focused scrutiny.

For PC13 and PC15 we simplified the business plan information requirement data tables. Our aim was to reduce the regulatory burden on the company, align with established local practice and improve communication between stakeholders. For PC21 we will continue to use and build on the information requirements that we developed for PC15, maintaining the key objectives of continuity and simplicity. Where necessary, we will continue to develop our information requirements. For example to:

- support our assessment of efficiency;
- ensure clarity and reconciliation between the price control determination and NI Water’s public expenditure funding; and,
- align financial data with the inputs required for financial modelling.

We will issue a first draft of our information requirements by 18 January 2019. These will be finalised by 15 March 2019. Before we issue the draft information requirements, we will consult NI Water to identify opportunities to improve the requirements, align them further with existing processes where possible and learn lessons from PC15. We would also welcome feedback from other stakeholders on opportunities to align our information requirements with established processes for output reporting.

4.9 Working with the principal stakeholders

We are committed to working with principal stakeholders in the water and sewerage industry to secure a successful outcome for PC21.

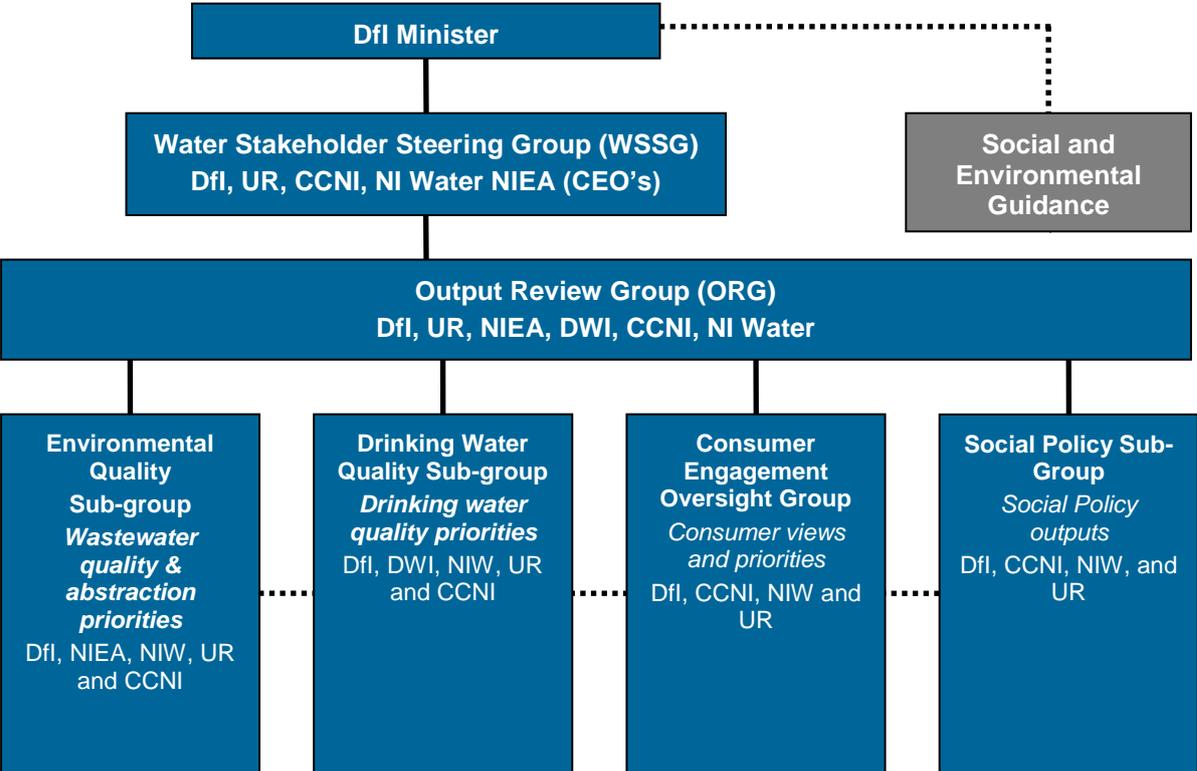
The Principal Stakeholder Groups established under the Water Stakeholders Partnership Agreement – the Water Stakeholder Steering Group and the Output Review Group – provided the forum for successful stakeholder involvement and cooperation at our earlier price controls.

In PC15, much of the stakeholder engagement necessary to develop and agree priorities was carried out by sub-groups of the ORG to address Environmental Quality, Drinking Water Quality and Consumer Engagement. These sub-groups build on existing bilateral working arrangements to identify future priorities. We will re-establish these sub-groups for PC21.

For PC21 we proposed that stakeholders consider the formation of an additional working group to provide a focus for the development of priorities and outputs driven by wider social policy such as renewable energy generation, protection of heritage assets, and recreational access. Stakeholders endorsed this approach and a ‘Social Policy’ working group has been established.

The structure and membership of the relevant groups is shown in Figure 1 below. While the groups have defined areas of responsibility, this is not restrictive. Working arrangements will be developed to ensure that issues which might cut across the work of more than one group are fully considered. The common membership across many of the groups will facilitate the flow of information and the ORG will provide a common forum for resolving cross cutting issues.

Figure 1: Proposed PC21 Working Groups



5 PC21 Phases and programme details

5.1 Phase 1: Our approach to PC21

Table 1 – Key milestones – Phase 1

Key milestone	Date
The Utility Regulator briefs Principal Stakeholders on indicative timeline for PC21	March 2018
The Utility Regulator issues a draft PC21 Approach Document to Principal Stakeholders	4 May 2018
Principal stakeholders respond to Utility Regulator's draft PC21 Approach Document	25 May 2018
Bilateral discussions with the Principal Stakeholder response to the draft PC21 Approach Document	wc 4 June 2018
PC21 Principal Stakeholder workshop	14 June 2018
The Department issues Planning Assumptions to principal stakeholders	wc 25 June 2018
The Utility Regulator publishes PC21 Approach Document	29 June 2018

In Phase 1 of the price control we will develop our overall approach to PC21 and set out timelines and milestone dates leading up to the submission of NI Water's Business Plan and the Utility Regulator's determination of outputs and prices.

We began this process in March 2018 with a series of bilaterals with the water industry Principal Stakeholders. The timelines set out in this Approach Document builds on these discussions. We ask that the Principal Stakeholder provide a response to our draft Approach by the 25 May 2018. We plan to hold further bilateral discussions following receipt of stakeholders the response to the draft Approach, culminating in a workshop of the water industry Principal Stakeholders on the 14 June 2018. We will publish our final Approach Document on the 29 June 2018.

5.2 Phase 2: Developing the building blocks of the PC21 Business Plan

Table 2 – Key milestones – Phase 2

Key milestone	Date
NI Water and CCNI engage with consumers to elicit views to inform Social & Environmental Guidance and the Business Plan	January 2018 to September 2019
Principal Stakeholders establish PC21 working groups to develop quality outputs and consumer priorities	Beginning May 2018
The Utility Regulator reviews NI Water's progress on the PC15 Development Objectives to inform the PC21 Business Plan	June 2018 to March 2019
The Utility Regulator publishes Approach to Asset Maintenance	28 September 2018
Department for Infrastructure provides draft Social & Environmental Guidance to principal stakeholders	30 November 2018
The Utility Regulator publishes a decision on Revenue Cap/Price Cap and a programme of any consequential work	11 January 2019
The Utility Regulator issues outline PC21 information requirements for discussion with the company	18 January 2019
The Utility Regulator publishes PC21 information requirements	15 March 2019
The Utility Regulator publishes approach to efficiency ⁴	15 March 2019
The Department publishes draft Social and Environmental Guidance for consultation	29 March 2019 to June 2019
NI Water submits an outline view of the capex programme to stakeholders	14 June 2019
The Utility Regulator issues Financial Model for PC21	28 June 2019

In Phase 2 of the price control we will work with key stakeholders to develop the key building blocks of consumer engagement, the identification of outputs, the finalisation of our

⁴ The Approach to OPEX and CAPEX efficiencies may include additional interim submission deadlines including the submission of draft special factors claims where appropriate.

approach to key components of the Business Planning process and the development of information requirements which will underpin NI Water's Business Plan and our determination.

At the end of this Phase of the development of the price control, NI Water will provide the Principal Stakeholders with an outline of its capex programme and outputs for the PC21 period. This will allow the Principal Stakeholders to consider the balance of investment and outputs proposed by NI Water and to provide further guidance on the development of the Business Plan submission if necessary.

Consumer engagement

In PC15, the Principal Stakeholders established a "Consumer Engagement Oversight Group" to provide shared oversight of the work carried out by NI Water to elicit consumer views to inform the prioritisation of investment and output targets. This group has continued to work on the implementation of new consumer measures based on consumer satisfaction and actionable data. It is well placed to continue to support the consumer engagement necessary to inform PC21 and has already begun to work on this, building on previous and on-going consumer engagement. This approach is in line with our overall principal that continuity should be maintained between price controls and delivery.

Identifying PC21 Objectives and Outputs

The Water and Sewerage Services (Northern Ireland) Order 2006 make provision for the Department for Infrastructure to issue guidance to the Utility Regulator on how it should contribute towards the attainment of social or environmental policies in the exercise of its functions. This guidance is of particular importance at each price control when the industry in planning for the medium term future and must build funding constraints and policy priorities into its plans.

The Social and Environmental Guidance for PC15 was developed in parallel with "Sustainable Water – A Long Term Water Strategy for Northern Ireland (2015-40)", published in March 2016. We understand that Social Environmental Guidance for PC21 will continue to build on the Long Term Water Strategy and the work already undertaken by the Principal Stakeholders to deliver the associated Implementation Action Plan. We have suggested a timescale for the development of Social & Environmental Guidance, with final Guidance issued when NI Water Business Plan has been developed. However, the timescale remains a matter for the Department for Infrastructure to consider and confirm.

We will ask the Department to provide planning assumptions for the capital and resource DEL funding which will be available to NI Water through the PC21 period as part of the draft Social and Environmental Guidance. This will focus the prioritisation of investment and allow NI Water to develop a plan which is affordable.

The timescale proposed for the development of Social & Environmental Guidance allows it to inform, and to be informed by, the working groups described in Section 4.9 above, which will identify and prioritise work within their respective areas. Where possible, we would expect the assessment and prioritisation carried out by these working groups to take account of consumers' views, the failure to meet current standards, constraints on development or emerging issues identified through risk assessments such as the Drinking Water Safety Plans.

Developing our approach for PC21

In setting out our approach for PC21, we have identified the following key areas where we will develop and issue separate methodologies which will set out our approach in more detail:

- **Our approach to asset maintenance:** We have outlined our approach to asset maintenance investment in Section 4.5 above. This builds on the Approach to Asset Maintenance for PC15 which was issued in 2013. We plan to issue an update to this document by 28 September 2018 having engaged with the company on its development of asset maintenance in the PC15 period. However, it remains for the company to develop its assessment of asset maintenance investment in a way which links investment to the current and future performance of its assets and identifies the minimum level of investment required to maintain defined levels of service.
- **Our approach to determining future efficiencies:** We have set out our initial thoughts on operational and capital efficiencies in Section 4.6 above. We will discuss our developing approach to efficiency with the company and we will issue our methodology with our Information Requirements on the 15 March 2019.
- **Our approach to revenue building blocks and financial modelling:** We have set out our initial thoughts to finance and tariffs in Section 4.7 above. How we approach revenue building blocks and financial modelling will depend on the decisions reached on Revenue Cap/Price Cap which will be published by 11 January 2019. We will then consider any changes required to the current financial model taking account of any lessons learnt in PC15. We will issue the PC21 financial model by the 28 June 2019.

PC21 business plan guidance

We have set out our approach to the development of information requirements for PC21 in section 4.8. We intend to follow the general approach adopted for PC15, aligning with established reporting processes and maintaining continuity through different regulatory submissions.

We will engage with NI Water on the development of our information requirements from July 2018 and will issue draft requirements by 18 January 2019. We will discuss the draft guidance with the company and publish our Information Requirements by 15 March 2019.

NI Water submits an outline of the capex programme

In PC15 we asked NI Water to submit a draft capex programme in advance of the Business Plan submission. This provided the basis for stakeholders to reach broad agreement on prioritisation and the allocation of investment between different strands of work and competing priorities. It then allows NI Water to focus the final detailed development of its Business Plan on the efficient delivery of agreed priorities and outputs.

To support the outline capital programme, NI Water should provide an assessment of the outputs it will deliver. The company should include information on the proposed quality outputs using the formats agreed with the relevant quality regulator. The company should

outline the changes in service levels it plans to deliver over the PC21 period and highlight how this links to the capital investment or changes in operational practice which it will develop through its Business Plan.

5.3 Phase 3: NI Water's business plan

Table 3 – Key milestones – Phase 3

Key milestone	Date
DfI publish PC21 Social and Environmental Guidance Consultation Feedback Report	25 October 2019
NI Water submits draft special factors claims to the UR	TBA
NI Water submits PC21 business plan to the UR	31 January 2020
The Department publishes final Social & Environmental Guidance for PC21 and confirms budget assumptions for the PC21 period (subject to Executive approval)	14 February 2020

NI Water's business plan submission

We will ask the company to provide its Business Plan by the 31 January 2020. This is earlier than in our previous price controls and will allow us more time to engage with the company and understand and challenge the Business Plan submission in advance of our draft determination.

The proposed timeline for the publication of Social & Environmental Guidance allows time for the final Guidance to take account of the development of the NI Water Business Plan and associated consumer engagement, while ensuring we can take account of the final version in our draft determination.

As we develop our approach to efficiency, we may conclude that it would be beneficial to have further draft data submissions in advance of the Business Plan submission to allow early assessment and feedback to the company, such as a draft special factors claim. Where this is the case, we will identify the reasons for, and the scope of, these submissions in our approach to efficiency and identify the data requirements in our information requirements.

5.4 Phase 4: We determine the PC21 contract, outputs and price limits to align with the public expenditure budget allocation

Table 4 – Key milestones – Phase 4

Key milestone	Date
NI Water submits PC21 Business Plan	31 January 2020
UR publishes Draft Determination for consultation	1 July 2020 to 18 September 2020
UR publishes Final Determination	11 December 2020
NI Water accept or reject Final Determination	11 February 2021
First year of PC21 Charges Scheme applies	1 April 2021
NI Water publishes PC21 Monitoring Plan	1 April 2021

It is our statutory role to set price limits that reflect the lowest overall cost of delivering ministerial objectives for NI Water. We do so by analysing NI Water’s business plan and other regulatory submissions. We also make comparisons of the proposed costs with those that would be incurred by efficient service providers elsewhere in the industry. We will also consider the implications of NI Water’s status as a non-departmental public body and the impact of any associated constraints on the company’s ability to drive out efficiencies. The timeline set out in Table 4 allows time for formal consultation on our draft determination. We will also continue to liaise with NI Water throughout the development of the draft and final determinations and we will continue to liaise with the Principal Stakeholders to understand their views on NI Water’s Business Plan.

We will adhere to the memorandum of understanding between the Utility Regulator and the Department for Infrastructure and the consequent written agreement. We will liaise with the Department on the need to update these agreements throughout the PC21 process as necessary. If required, we would publish any proposed changes to the memorandum and written agreement with our draft determination and we will finalise these agreements by the time we issue our final determination.

Following our final determination, we will ask NI Water to prepare a monitoring plan setting out its commitments to consumers for the PC21 period. We will then monitor delivery against that plan.

Table 5 collates the key milestones for PC21

Table 5 – PC21 key milestones

Key milestone	Date
PC21 phase 1: Our Approach to PC21	
The Utility Regulator briefs Principal Stakeholders on indicative timeline for PC21	March 2018
The Utility Regulator issues draft PC21 Approach Document to Principal Stakeholders	4 May 2018
Principal stakeholders respond to Utility Regulator PC21 draft Approach Document	25 May 2018
Bilateral discussions with the Principal Stakeholder response to the draft PC21 Approach Document	wc 4 June 2018
PC21 Principal Stakeholder workshop	14 June 2018
The Department issues Planning Assumptions to principal stakeholders	wc 25 June 2018
The Utility Regulator publishes PC21 Approach Document	29 June 2018
PC21 phase 2: Developing the building blocks for the PC21 Business Plan	
NI Water and CCNI engage with consumers to elicit views to inform Social & Environmental Guidance and the Business Plan	January 2018 to September 2019
Principal Stakeholders establish PC21 working groups to develop quality outputs and consumer priorities	Beginning May 2018
The Utility Regulator reviews NI Water's progress on the PC15 Development Objectives to inform the PC21 Business Plan	June 2018 to March 2019
The Utility Regulator publishes Approach to Asset Maintenance	28 September 2018
Department for Infrastructure provides draft Social & Environmental Guidance to principal stakeholders	30 November 2018
The Utility Regulator publishes a decision on Revenue Cap/Price Cap and programme of any consequential work	11 January 2019

Key milestone	Date
The Utility Regulator issues outline PC21 information requirements for discussion with the company	18 January 2019
The Utility Regulator publishes PC21 information requirements	15 March 2019
The Department publishes the draft Social and Environmental Guidance for consultation	29 March 2019 to June 2019
The Utility Regulator publishes approach to efficiency ⁵	15 March 2019
NI Water submits an outline view of the capex programme to stakeholders	14 June 2019
The Utility Regulator issues Financial Model for PC21	28 June 2019
PC21 phase 3: NI Water's business plan	
DfI publish PC21 Social and Environmental Guidance Consultation Feedback Report	25 October 2019
NI Water submits draft special factors claims to the UR	TBA
NI Water submits PC21 business plan to the UR	31 January 2020
The Department publishes final Social & Environmental Guidance for PC21 and confirms budget assumptions for the PC21 period (subject to Executive approval)	14 February 2020
PC21 Phase 4: Price Control Determinations	
NI Water submits PC21 Business Plan	1 February 2020
UR publishes Draft Determination for consultation	1 July 2020 to 18 September 2020
UR publishes Final Determination	11 December 2020
NI Water accept or reject Final Determination	11 February 2021
First year of PC21 Charges Scheme applies	1 April 2021
NI Water publishes PC21 Monitoring Plan	1 April 2021

⁵ The Approach to OPEX and CAPEX efficiencies may include additional interim submission deadlines including the submission of draft special factors claims where appropriate.