



Key point briefing – PC21 Draft Determination

Background

Northern Ireland Water (NI Water) is responsible for providing water and sewerage services to consumers in Northern Ireland. Since NI Water is the sole provider of water and sewerage services, the Utility Regulator (UR) regulates the amount of revenue the company receives. These costs are based upon the 'needs' identified. These needs are jointly agreed with the Drinking Water Inspectorate (quality requirements for drinking water), Northern Ireland Environmental Agency (NIEA) (detail on discharge requirements), Department for Infrastructure (government policy including funding) and the Consumer Council (consumer expectations). At present, the revenue that is attributable to domestic consumers is provided by government subsidy.

The PC21 price control will determine NI Water's price limits and the outputs to be delivered during the six-year period from April 2021 to March 2027. Our price control review protects the interest of consumers by scrutinising and challenging NI Water to deliver high quality, value for money services.

Draft Determination summary

➤ Key issues

It is recognised that much of NI Water's Business Plan and this PC21 draft determination reflects the company's core business related to the operation and maintenance of the water and sewerage network and responding to the needs of consumers. However, there are three strategic and linked issues which will define the development of water and sewerage services over the medium to longer term:

- 1. Development constraints.** During PC21, NI Water will begin to address a lack of capacity in sewerage networks and wastewater treatment works. A lack of capacity causes unsatisfactory spills from overflows and treatment works cannot comply with the statutory consents issued by NIEA to protect the environment. It impacts on the planned development of housing and industry which underpins the economy and wellbeing of our society. NI Water's PC21 plans will only begin to address current development constraints and further investment will be required in future price controls. This presents a wider challenge as to how economic development can be supported while the necessary investment is delivered.
- 2. Increasing capital investment.** The outputs NI Water plans to deliver in PC21 will require investment of £1.7bn, an increase of 74% compared to PC15. This will place a further pressure on public expenditure budgets. Without this investment, NI Water will continue to breach statutory environmental obligations and our society will have to choose between environmental protection and economic development. An increase of investment of this magnitude can only be delivered successfully if there is a commitment to medium term funding.
- 3. Long term tariff stability.** We recognise that investment in water and sewerage services network infrastructure is not just for today but is also about the long-term. By setting the total sum of all NI Water tariffs to zero (excluding inflation) over this price control period we are



ensuring greater tariff stability while also providing for NI Water’s long-term capital development needs. Tariffs therefore reflect the need to recover NI Water’s costs in PC21 while better reflecting the long- term cost of delivering the service. This creates a more balanced position by reducing potential tariff increases for future consumers. We will continue to engage with both NI Water and Department for Infrastructure (Dfi) on long-term sustainable funding issues.

➤ **Operational expenditure**

NI Water has reduced the efficiency gap with similar companies in England and Wales from 22% at the time of our PC15 determination, to 8% today.

This draft determination requires NI Water to close the remaining efficiency gap to upper quartile performance in England and Wales by the end of 2025-2026. We also expect the company to deliver productivity improvements of 0.8% per annum. Opex efficiency is equivalent to 2.11% per annum compared to 0.78% proposed by the company and this saves consumers £73m over the PC21 period.

Figure 1 shows the profile of operational costs since our first price control PC10. Additional costs at the start of PC21 (such as increased business rates) means costs will increase in the first year of PC21 before being reduced again by improvements in efficiency over PC21.

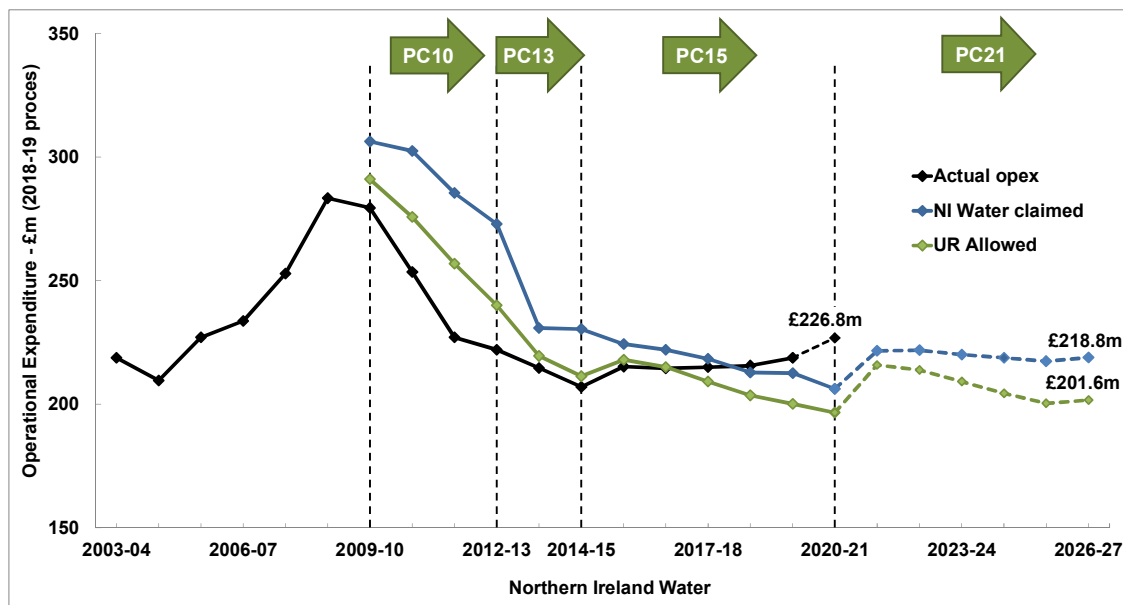


Figure 1: Actual and determined expenditure for PC10 to PC21.

➤ **Capital expenditure**

Our draft determination includes capital investment of £1,681m in PC21 (2018-2019 prices) including £425m of investment as part of the Living with Water Programme.

We challenged NI Water’s costs using a combination of econometric benchmarking, historical costs and an assessment of the company’s costing systems undertaken by the Independent Reporter. Our determination of capital expenditure is 11.9% lower than the company’s proposals.



£683m (41%) of capital investment is required to maintain the existing assets and the service they deliver. The remainder will enhance capacity and service including addressing development constraints.

➤ Revenue and bills

We have determined a cost of capital of 1.7% (average) over PC21. This is lower than the company’s Business Plan and saves £184m in billed revenue (nominal).

The increase in capital investment in PC21 is financed through debt and equity which 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 £272m in PC21.

Determined revenue for PC21 is £2.8bn which is the same as the level of revenue included in the company’s Business Plan. The weighted average price limit (K factor) are zero in real terms relative to RPI. Within this average price limit, prices will rise in real terms for some groups of consumers and fall for others as shown below in Table 1.

Table 1: Impact on typical consumer bills (£/a).			
	Actual 2020-2021	Average bill over PC21	Change from 2020-2021
Average notional household	420	425	5
Typical unmetered	298	325	27
Typical small metered	397	375	-22
Typical large metered	3647	3452	-195

➤ Key benefits and outputs

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 £184m.
- **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 today.
- **Improved service:** Existing performance measures for pressure, interruptions to supply and flooding pollution incidents will improve. New consumer service measures will drive incremental and continuous improvement in consumer service.

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



Table 2: Key outputs delivered in PC21

- Investment of £683m 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 and underscored by new consumer measures with targets for net promoter score, first point of contact resolution and unwanted calls.
- Investment in 18 schemes at 16 water treatment works to maintain and improve water quality.
- Construction of 14 water trunk-main schemes to maintain security of supply and improve the resilience of supply in areas severely affected by major incidents in the past.
- Delivery of three new water storage tanks at treatment works and in distribution to balance flows in the network and improve resilience in the event of pipe burst or work outage.
- Replacement or renovation of 788 km of water mains to control interruptions to supply address low pressure and improve water quality. Replacement or renovation of 61 km of sewers which are collapsing or a cause of frequent blockage.
- Investment to enhance treatment at 45 wastewater treatment works serving a population equivalent greater than 250 and upgrades to 36 small wastewater treatment works to secure compliance with environmental discharge standards and accommodate development.
- Investment to improve the quality of 136 intermittent discharges to comply with environmental standards and accommodate development.
- As a result of improvements in wastewater treatment works and intermittent discharges 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 and in response to sample failures.
- Measures to improve sustainability and reduce the impact on climate change including: continuing sustainable catchment management (SCAMP); moving to 100% renewable energy consumption by the end of PC21 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.
- On-going investment in management and general facilities to support the delivery of service, improve interactions with consumers, improve efficiency and make the service more sustainable.