

**\*\*Strictly embargoed to 12.01am on Wednesday 3 February 2010\*\***

**Key Questions and Answers on PC10 Final Determination**

**Q1 What exactly is PC10?**

PC10 is the acronym for the price control process carried out by the Utility Regulator, the independent non-ministerial government department, for Northern Ireland Water (NI Water). It determines the revenue that the company is allowed in order to deliver water and sewerage services to consumers for the three year period 2010 to 2013. It also identifies what is to be achieved through the investment programme, the expected improvements in service and the level of efficiency the company is expected to deliver.

This is the final determination. It follows a draft determination that was proposed by the Utility Regulator on 18 September 2009. A consultation period followed and ran until 6 November 2009. The Utility Regulator welcomes the 16 responses received to the draft determination from stakeholders. All responses were considered and have been taken into account in the published final determination.

This is NI Water's first price control. It is the core of the regulatory regime which seeks to ensure that the monopoly supplier acts in the interests of consumers by controlling costs and setting performance standards thereby providing value for money. All aspects of NI Water's business are addressed and the objectives to be delivered are tailored in light of costs, local circumstances, consumer needs and the environment.

PC10 determines what it should cost NI Water to deliver continuing investment and improved services over the three-year period, subject to the public expenditure allocations that will be set for the company by the NI Executive.

## **Q 2 What has changed from the draft determination?**

A number of changes have been made to the final determination, in part due to additional information and updated forecasting received from NI Water. The determination also takes account of consultation responses received from other stakeholders.

### **Capital expenditure**

The capital expenditure is now £564 million, an increase of £44 million from the draft determination. This is equivalent to an annual investment spend of £279 per property in Northern Ireland, which is on average 47% higher than that spent in English and Wales. In addition, more money has been allocated to maintain existing assets (capital maintenance) and watermains.

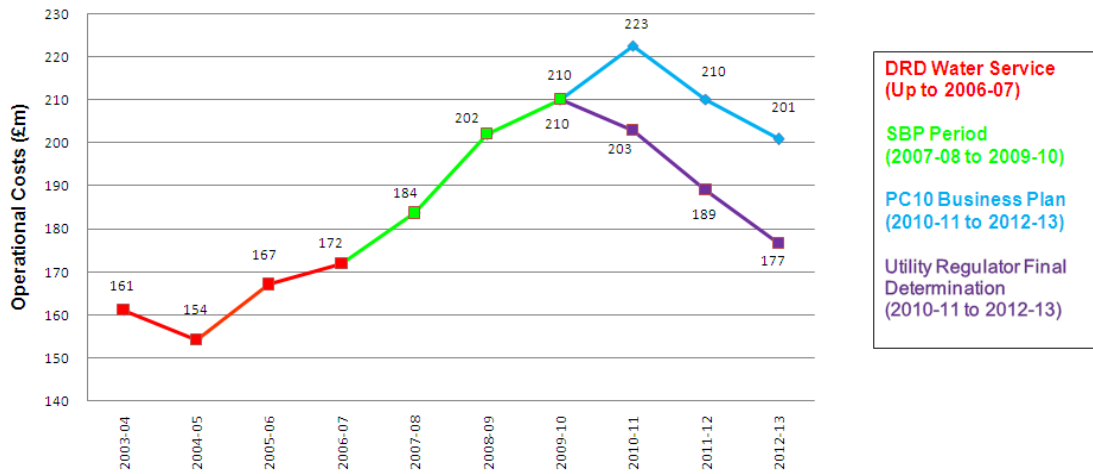
### **Operating expenditure**

Operating expenditure has increased by £38 million to £569 million. In the determination we took account of local circumstances and have allowed projected energy and chemical costs increases, further business improvement and additional voluntary early retirement funding.

Analysis indicates that NI Water has a 49% efficiency gap relative to comparative companies in England and Wales. In setting efficiency targets, we have looked at what other water companies have delivered, for example Scottish Water, another publicly owned company, and challenged NI Water to strive for a similar level of efficiency.

The figure below shows the rapid increase in operating costs from 2004-05, and then the start of a decline in costs over the PC10 period reflecting the focus on efficiency and the need to reduce costs going forward.

**NI Water Opex 2003/04 to 2012/13 (2007-08 prices)**



*N.B. - The costs from 2007-08 onwards exclude unregulated activities. This is different from the Water Service period as no distinction was made in these years between regulated and unregulated activity as regulation was not in place.*

*N.B. - Figures from 2007-08 onwards include opex plus the entire PPP unitary charge including capital repayments and interest.*

*N.B. - The 2009/10 figure (£210m) represents the company forecast for this year based on half year projections.*

The final determination takes into account the unique circumstances of NI Water. Other key changes from the draft determination include – additional justified expenditure, disallowed additional operating costs, reduced applied regional price adjustment, increased level of capital maintenance and additional funding for a VER/VS scheme.

### Q 3 What are the key highlights in the final determination?

The key proposals are as follows:

- A more efficient and accountable water industry for Northern Ireland.
- £91m revenue savings, £68m less public funding and £23m less from charges to customers.
- £564m capital investment programme (subject to public expenditure allocations that will be set by the NI Executive) aimed at delivering benefits such as:
  - improving the security of supply;
  - reducing instances of poor pressure and sewer flooding;
  - reducing the pollution of rivers and bathing waters; and
  - further improve the high quality drinking water.
- Improved systems, more reliable data and a start on the journey to close the gap in cost and performance of water and sewerage services for customers of NI Water to that enjoyed by the rest of the UK.
- 43 wastewater treatment schemes to underpin local economic development.

### Q 4 Are the targets set in the final determination achievable?

In reviewing what has been achieved by similar companies to NI Water in relation to efficiency savings, Scottish Water, a publicly owned body, provided a useful benchmark. During 2002 – 2006 Scottish Water experienced a similar transformation, and in those four years achieved operating efficiencies averaging 7.6% pa. The Utility Regulator has set a lower annual average challenge to NI Water of 6.5% for the PC10 period. The Utility Regulator is only asking NI Water to achieve what other companies have done before.

As an independent non-ministerial government department, the Utility Regulator has a statutory duty to protect the interests of consumers. PC10 is the most robust analysis carried out of the company to date and will ensure that NI Water carries out its functions efficiently and effectively. This will benefit consumers, the environment and the public purse.

NI Water's costs are almost twice that of water and sewerage services companies in GB. We are not reducing their costs by 50%; but moving them towards a more efficient position, taking into account local circumstances. Similar companies in GB who have gone through this process and become more efficient, have not compromised on water quality or services.

Throughout the consultation period we met regularly with NI Water. We listened and responded to concerns and feedback received from NI Water and key stakeholders. In addition, we have acted on supplementary information and updated projections provided by the company and allocated additional funding where justified.

### **Q 5 What is the impact of PC10 on consumers**

PC10 brings to the fore consumer priorities that were identified in the research carried out jointly by NI Water and the Consumer Council. The outcome of the research, combined with the social and environmental guidance from the Minister for Regional Development, informs and identifies the priorities for NI Water's capital expenditure during the PC10 period and beyond.

Proposed additional investment will bring improvements to security of supply and poor pressure; further improve water quality; and reduce out of sewer flooding and pollution incidents.

If water charges were to be introduced, which is a matter for the NI Executive, PC10 would ensure that consumers got the best value for money, while at the same time ensuring that NI Water has sufficient investment to allow it to continue its improvement of services and water quality, and to meet its environmental obligations. In the absence of charging, delivering on PC10 will ensure value for both consumers and the public purse.

Delivering on PC10 will also produce significant efficiency savings that will result in better services for lower costs regardless of the funding source.

### **Q 6 What happens next?**

NI Water can choose not to accept the final determination, but refer it to Competition Commission. It has two months to make this decision.

If NI Water accepts the final determination, it will be used to provide the basis for the company's business and monitoring plans and will inform the non-domestic annual scheme of charges for 2010-2011, 2011-12 and 2012-13.