

# Key point briefing – Final Determination: Summary

## 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 (detail on discharge requirements), Department for Regional Development (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.

This document outlines our final determination for our third NI Water price control (also called PC15) which will apply from April 2015 to March 2021, with provision for a mid-term review during the price control period. However, we are aware that there is currently a review of government funding for many key services. In the event of public expenditure reductions for water and sewerage services we will work with NI Water to ensure that it delivers the best possible package of Business Plan outputs within the final public expenditure allocation. In this scenario it is likely that there will be an impact on the level of services and outputs.

## Price control determination: summary

### i. Revenue requirement

This challenging determination provides for a total revenue requirement for NI Water of £2.34bn for the six-year period of the price control. Table 1 also notes NI Water’s business plan submission for its revenue requirements.

**Table 1: Total revenue request and proposal**

Revenue Requirement	NI Water Business Plan	PC15 Final Determination	Saving
Total Revenue	£2.43bn	£2.34bn	£-89.3m

### ii. Capital expenditure (Capex)

Our determination provides for £1bn of capital investment. This aligns with current guidance on public expenditure available for investment in water and sewerage services. We accept that the company could commit a higher level of efficient investment and this would add value should additional public expenditure become available.

Of this investment, £556m (55%) is allocated to ongoing repair and replacement of assets to ensure the high levels of performance achieved to date are maintained. £446m (45%) is allocated to deliver clearly defined and prioritised outputs which will enhance service, such as new and upgraded treatment works.

We have set a target of 7% increased capital efficiency for improving works. This will allow the company to deliver £56m of additional service improvement within the current budget. A 0.6% per year ongoing efficiency target has also been applied to both improving works and capital maintenance to ensure continuous efficiency improvement.

From NI Water’s business plan it is clear that substantial work has been carried out by the company to engage with their consumers and improve asset management processes. We expect the company to continue the journey to improve asset management and better align consumer expectations with investment planning.

**iii. Operational expenditure (Opex)**

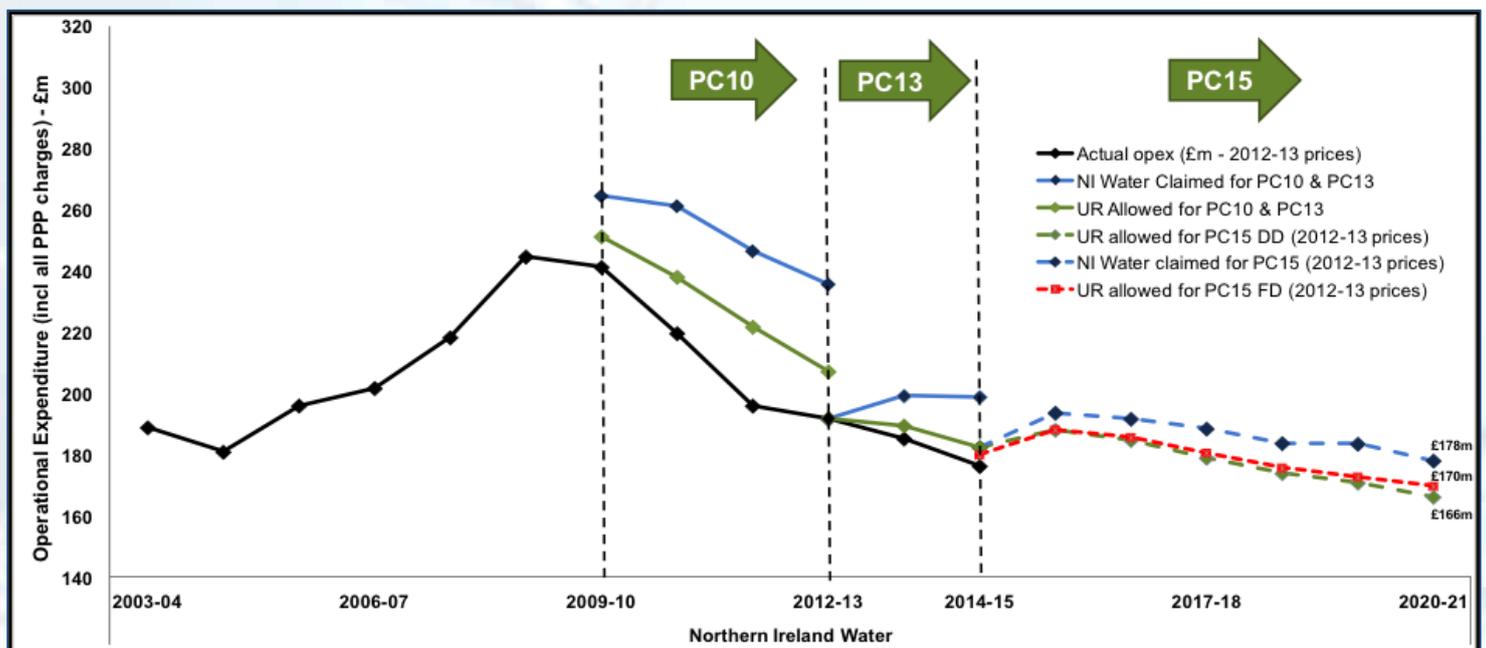
Benchmarking information shows that NI Water is 22% less efficient than similar companies in England and Wales. NI Water spends £1.27 for every £1 spent by the more efficient companies.

We challenge NI Water to reduce their efficiency gap and deliver 2.3% per annum efficiency savings over PC15, saving the consumer £47m in 2012-13 prices.

Figure 1 shows the profile of Opex by NI Water from our first price control PC10 onwards. The step change at the start of PC15 is largely due to an exceptional item around the likely increase in NI Water’s business rates bill. NI Water has updated its estimate of the likely increase to over £12m per annum or an extra £74m over PC15.

Our determination means that consumers will see NI Water absorb much of any exceptional increase so that Opex will rise by a smaller proportion, or just £8m in the first year of PC15 before reducing. Operational costs are expected to reduce to £170m per annum by the end of PC15, from a starting value of £193m in 2015-16.

**Figure 1: Opex expenditure for PC10, PC13 and proposed expenditure for PC15**



## Impact on consumers

The majority of consumers will see their bills decrease, before taking account of inflation, over the PC15 period (see Table 2).

Only unmetered consumers, who represent 11% of all billed consumers, will see an increase in their bills. A typical bill for this group of consumers will increase from £250 to £285 by 2020-21. The main reason for this increase is down to more accurate information about the consumption levels of this group of consumers.

**Table 2: Typical consumer bills – NI Water business plan submission and UR Final Determination (£)**

Bills (2014-15 prices)	Actual 2014-15	NI Water Business Plan submission for 2020-21	UR Final Determination 2020-21	Saving in 2020-21	Saving over PC15 compared to Business Plan
Average notional household	410	400	365	35	76
Typical unmetered	250	293	285	8	54
Typical small metered	361	367	348	19	72
Typical large metered	2,991	3,041	2,890	151	582

## Our determination – key benefits

This determination will result in the following, challenging but achievable outcomes:

- **Lower bills for most water and sewerage consumers** – the majority of consumers will see reductions in bills;
- **Improved efficiency** – challenging NI Water to deliver an 11.5% real terms reduction in total opex (2012-13 to 2020-21). This builds on improved efficiencies from our first two price controls;
- **Continued significant investment in water and sewerage services** – NI Water will continue to invest to maintain the existing assets and improve compliance with EU quality targets; and,
- **Improvements in levels of service** – current service levels will be maintained. The number of properties at risk of low pressure or internal flooding will be reduced. New consumer service measures will be introduced, including a new consumer satisfaction survey providing ‘actionable data’ to improve customer services.

**Table 3: Some key outputs included within NI Water's programme for PC15**

- Investment to maintain an existing asset base with a replacement value of over £9bn will maintain levels of service to existing consumers.
- Continued connection of new properties to the water and sewerage network and the release of development constraints.
- Investment in trunk mains to Cookstown and Strabane will improve security of supply in an areas badly affected by recent freeze thaw events.
- Investment to alleviate the risk of internal flooding at 62 domestic properties and 836 properties affected by low water pressure.
- Investment in 19 wastewater treatment schemes to improve the quality of discharges from works > 250 population equivalent and upgrades of 45 small wastewater treatment works.
- Improvements to 56 unsatisfactory intermittent discharges to meet quality standards.
- Replacement or renovation of 905km of water mains and 74km of sewers.
- Further investment in systems to support the delivery of service, improve interactions with consumers, improve efficiency and make the service more sustainable.
- Proactive replacement of over 11,000 lead communications pipes at consumer properties in addition to lead pipe replacement under water main rehabilitation and in response to sample failures.
- Further reductions in leakage surpassing 159Mld (the economic level of leakage).
- Completion of work to secure water supply assets in line with requirements of the Preservation of Services and Civil Emergency Measures Directive.

## Next Steps

The PC15 price control has been an ongoing process of engagement. Our determination has been developed following extensive engagement with NI Water, which provides a vital public health service for consumers in Northern Ireland. We would also like to acknowledge the input of other stakeholders in helping us develop our determination, and in particular, the Department for Regional Development, Drinking Water Inspectorate, Northern Ireland Environment Agency, and the Consumer Council. We consider this determination provides the appropriate level of funding for NI Water to continue its journey of improvement and greater efficiency. However, we will continue to engage with stakeholders and, in the event of public expenditure reductions, consider any revisions necessary.

The main final determination report, technical annexes and consultation responses to the draft determination are all available to view on our website [www.uregni.gov.uk](http://www.uregni.gov.uk)