

Key point briefing – 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. Our primary duty is to protect the interests of consumers. This ensures value for money for consumers in the provision of water and sewerage services. We therefore scrutinise the company's revenue requirements through periodic price controls.

While domestic consumers do not directly pay for water charges, the costs associated with providing water and sewerage services to commercial consumers is recovered through bills.

This document outlines our draft determination for our third NI Water price control (also called PC15) which will apply from April 2015 to March 2021.

Key price control proposals

i. Revenue requirement

We propose 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.

Revenue Requirement	NI Water Business Plan	PC15 Draft Determination	Saving
Total Revenue	£2.43bn	£2.34bn	£-89.4m

ii. Capital expenditure (Capex)

We are proposing that £1bn is allowed for Capex. This aligns with the current public expenditure estimates that are available for water and sewerage services. We also accept that the company could commit a higher level of efficient investment and this would add value should additional public expenditure become available.

Within the £1bn we are proposing that £556m (55%) is allocated to ongoing capital maintenance and that £446m (45%) is allocated to clearly defined outputs that are prioritised and targeted for enhancement, such as new and upgraded works.

We have proposed a target of 9.1% increased capital efficiency for improving works. This along with other challenges increases service levels to meet new improved quality requirements by £59m.

A target of 0.6% per year efficiency for the current levels of capital maintenance is also proposed. This level will ensure the continued high levels of performance of the network are maintained with continued reporting of existing service levels and new indicators being developed.

From the NI Water business plan submission it is clear that substantial work has been carried out by the company to engage with their consumers and improve their asset management processes. We expect the company to continue the journey of improvement and to take action to address the gaps they have identified. These include asset management and better alignment of consumer expectations with investment planning.

iii. Operational expenditure (Opex)

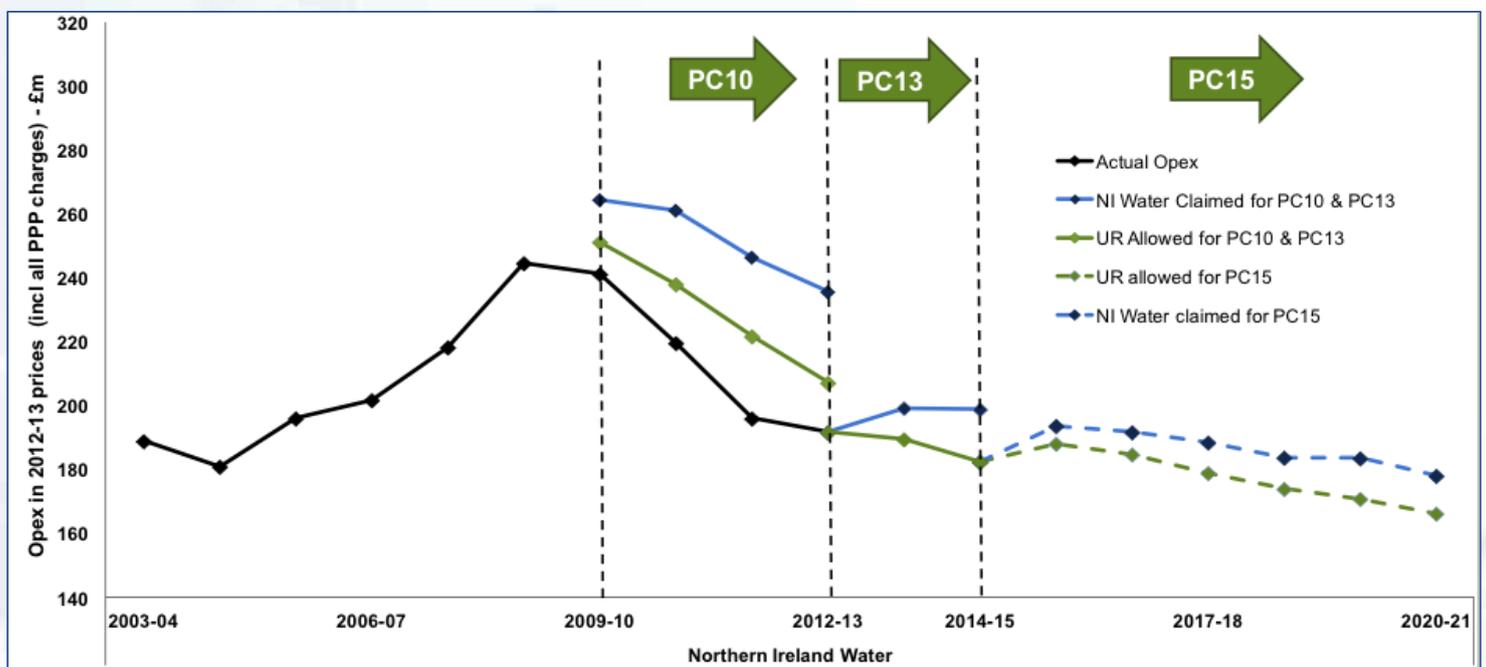
Benchmarking information shows that NI Water is 23% less efficient than similar companies in England and Wales. NI Water spends £0.30 more per £1 than more efficient companies.

This draft determination proposes a reduction of this efficiency gap and challenges NI Water to deliver 2.9% per annum efficiency savings over PC15, saving the consumer £56m 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 estimated an increase of over £10m per annum or around an extra £60m over PC15.

Our proposals mean that consumers will see NI Water absorb much of any exceptional increase so that Opex will rise by a smaller proportion, or just £6m in the first year of PC15 before reducing. Operational costs are expected to reduce to £166m per annum by the end of PC15, from NI Water’s identified starting value of £193m in 2015-16.

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



Impact on consumers

Under our proposals, 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 £276 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 Draft Determination (£)

Bills (2014-15 prices)	Actual 2014-15	NI Water Business Plan submission for 2020-21	UR Draft Determination 2020-21	Saving in 2020-21	Saving over PC15 compared to Business Plan
Average notional household	410	400	372	28	74
Typical unmetered	250	293	276	17	77
Typical small metered	361	367	336	31	103
Typical large metered	2,991	3,041	2,785	256	858

Our proposals – key benefits

Our proposals will result in:

- **Lower bills for most water and sewerage consumers** – the majority of consumers will see reductions in bills under our proposals;
- **Improved efficiency** – delivering a 13% 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 in the network to deliver the required capital maintenance and will invest in new network to meet EU quality targets; and,
- **Improvements in levels of service** – current service levels for consumer contact 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 measureable 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 a trunk main to Cookstown will improve security of supply in an area badly affected by the 2010-11 freeze thaw.
- 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.
- Upgrading 54 unsatisfactory intermittent discharges to meet quality standards.
- Replacement or renovation of 816km 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 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 proposals have 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 proposals, and in particular, the Department for Regional Development, Drinking Water Inspectorate, Northern Ireland Environment Agency, and the Consumer Council.

Our proposals will now be subject to a period of public consultation. The full draft determination report is available to view on our website www.uregni.gov.uk. The consultation closes on **15th October 2014**.