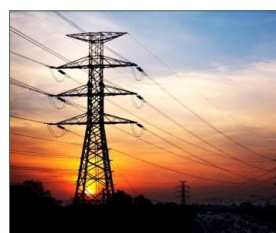


Water and Sewerage Services

Cost and Performance Report for 2015-16

An assessment of NI Water's costs and performance

December 2016



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: Corporate Affairs; Electricity; Gas; Retail and Social; and Water. 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

We regulate the revenue NI Water receives through periodic price controls. Our proposals set an overall revenue requirement and identify the levels of capital and operational expenditure. This report reflects our assessment of NI Water's performance during the first year of its third regulatory price control, PC15, covering the period from April 2015 to March 2021.

Audience

Regulated utilities, regulatory community, industry, consumers and their representative bodies and statutory bodies.

Consumer impact

This assessment provides consumers with information on the performance of NI Water from April 2015 to March 2016 in relation to our price control.

Cost and Performance Report for 2015-16

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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 these services, the Utility Regulator (UR) regulates the amount of revenue the company receives. This ensures value for money for consumers. We therefore scrutinise the company's revenue requirements through periodic price controls.

NI Water is a government-owned provider of water and sewerage services. Financially, it is treated as a Non-Departmental Public Body (NDPB) since the majority of its income is from public funding. While domestic consumers do not directly pay for water charges, the cost of providing these services to commercial consumers is recovered through bills.

NI Water's third regulatory price control period of PC15 began on 1 April 2015 and will run for six years until 31 March 2021. It took account of a public expenditure capital budget provision of £990m, as indicated in the Department for Regional Development's (DRD's¹) 2014 Social and Environmental Guidance, along with the UR's assessment of the efficient operational expenditure required.

This 2015-16 Cost and Performance Report (CPR) assesses performance in the first year of PC15. In developing this report the UR has adopted a proportionate approach consistent with the review of delivery in the first year of longer delivery programme. It would be our intention to undertake more extensive assessments at the midpoint and end of the PC15 price control period.

Performance has been assessed against the targets included in NI Water's Monitoring Plan for 2015-16. These targets included adjustments agreed by stakeholders to account for public expenditure budget reductions in the first year of the price control period and therefore differ slightly from those published in the UR's PC15 final determination.

In overall terms, NI Water successfully delivered against the 2015-16 Monitoring Plan targets. The overall service provided to consumers continued to improve against a backdrop of budget reductions.

Key Findings

It is clear from assessing the 2015-16 data that in overall terms, NI Water largely delivered on the annual targets set for the first year of PC15.

The company outperformed its operational expenditure (opex) efficiency target, while at the same time improving overall levels of service. Key findings for 2015-16 are as follows:

- NI Water's £197.1m of opex spend in 2015-16 compares favourably to our regulatory allowance of £199.6m (in current prices), a difference of some £2.5m in-year.

¹ The CPR makes reference to the Department for Regional Development (DRD). Under the Departments Act (Northern Ireland) 2016 and The Departments (Transfer of Functions) Order (Northern Ireland) 2016, the functions of DRD transferred to the Department for Infrastructure (DfI).

- The company invested £143.7m of capital expenditure (capex) in 2015-16, the first year of a 6 year Price Control. Investment was constrained by the available public expenditure budget and we worked with NI Water, DRD and other key stakeholders to ensure that the company delivers the best possible package of outputs within the funding available. We will continue to assess cumulative delivery over the medium term taking account of changes in budget, inflation and the delivery of capital efficiency.
- NI Water met our 2015-16 Overall Performance Assessment (OPA) target, delivering its highest ever OPA score.
- The company met or exceeded planned delivery in all but four of the Key Performance Indicators (KPIs) set in the Monitoring Plan for 2015-16. This includes 14 out of 16 consumer service measures and all of the water and sewerage quality KPIs. It delivered the majority of the output measures and maintained stable serviceability.
- Delivery of development objectives is a key requirement for NI Water in PC15 and the company has further work to do to demonstrate that it is making sufficient progress in the delivery of all of these objectives for PC15.

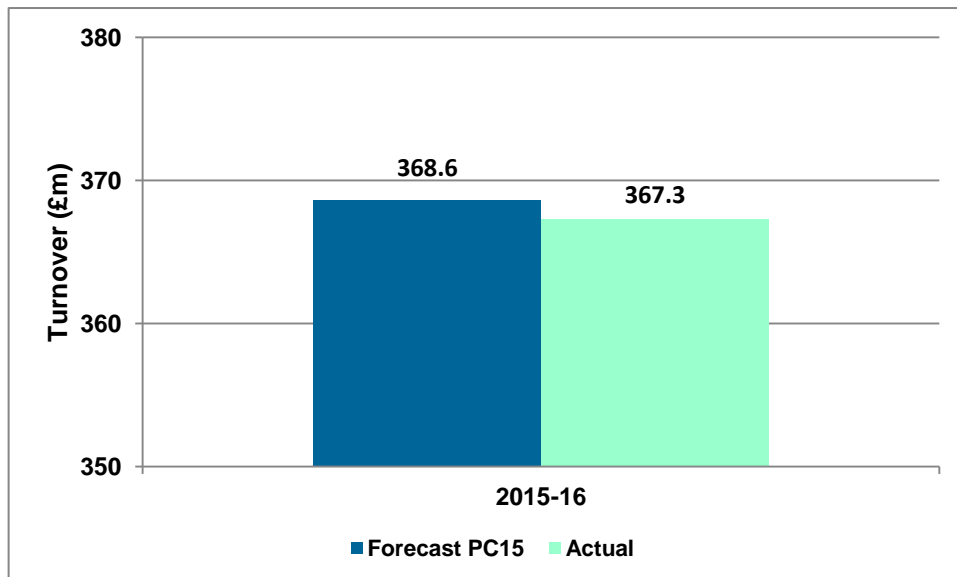
1.0 Costs and Efficiency

1.1. Overall Financial Performance

Turnover

- 1.1.1 The UR determines price limits (referred to as K factors) to be applied over the price control period. The K factors are the annual percentage increase or decrease in charges above or below inflation. An annual approval process is then operated to ensure tariffs are in line with the determination. The UR found the 2016-17 tariffs to be marginally lower than the permitted limit.
- 1.1.2 Actual turnover will vary from determination forecasts over time as inflation, volumes and accounting adjustments impact on the final reported turnover within the annual accounts. Actual turnover of £367.3m was marginally lower than the PC15 forecast of £368.6m.

Figure 1.1: NI Water turnover versus PC15 forecasts



Operating Profit

- 1.1.3 The current cost operating profit of £53.7m was significantly higher than the PC15 forecast of £29.5m. The main difference here was current cost depreciation. Depreciation allowances used in setting price limits are calculated on a different basis and therefore turnover and customer charges are unaffected by this differential.

Dividend

- 1.1.4 A dividend of £23m was paid to the company shareholder DRD in respect of 2015-16. This level of dividend is in line with projections in the PC15 FD.

Loan Profile

- 1.1.5 DRD loans increased to £984m compared to the PC15 projection of £1,035m. The difference can be explained by lower actual borrowings compared to forecast at the start of 2015-16 and lower capital expenditure during the year.

Regulatory Capital Value

- 1.1.6 The Regulatory Capital Value (RCV) is the value of the appointed business on which NI Water earns a return at the determined weighted average cost of capital. The RCV is increased each year by the investment in new assets and reduced by the value of assets that have been depreciated or sold off in the year. NI Water's RCV has grown steadily from the start of its first price control (PC10) and stands at £2.133 billion at the end of 2015-16.
- 1.1.7 More detailed information on NI Water's financial information is set out in the company's statutory and regulatory accounts. These can be found in NI Water's annual report for each year which is published on its website².

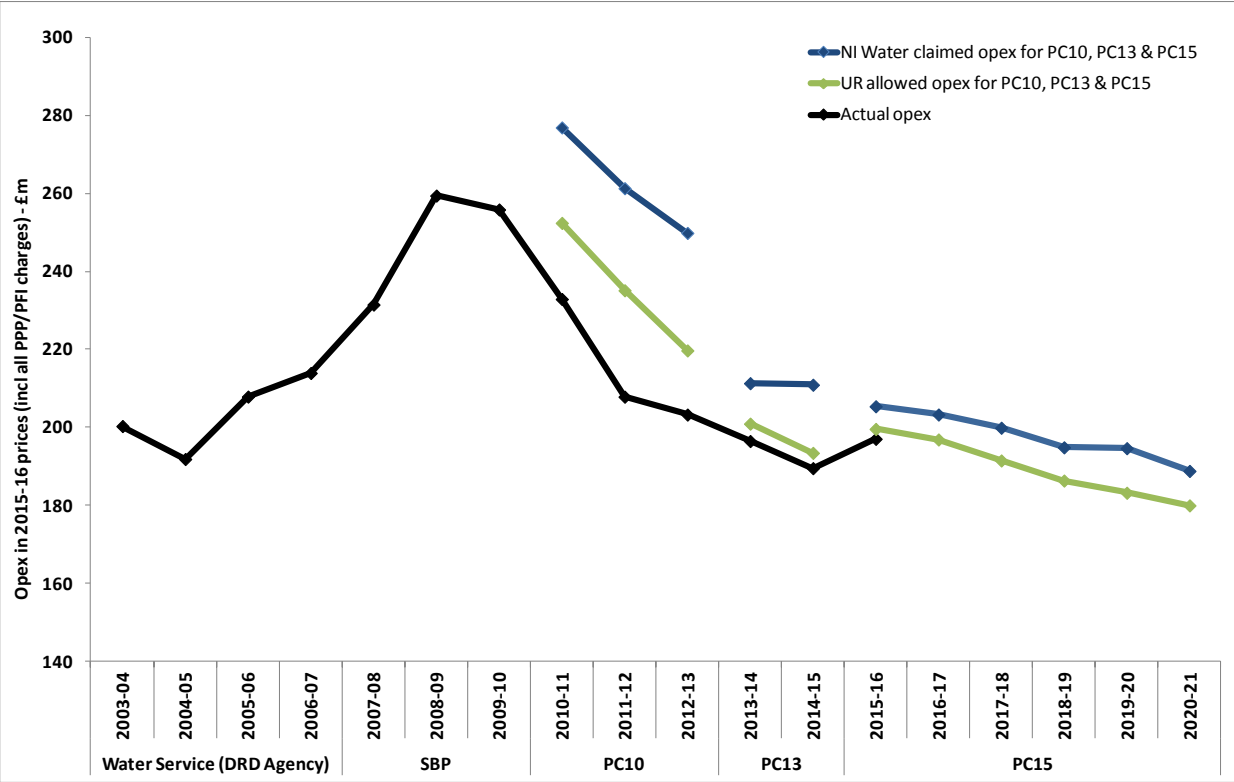
1.2. Operational Expenditure

- 1.2.1 NI Water's opex costs increased in nominal terms from £187.5m in 2014-15 to £197.1m in 2015-16. This £9.6m rise translates into a 4.0% real terms increase in the day-to-day running costs of the business over the year, once inflation is taken into account.
- 1.2.2 The rise in NI Water's opex is primarily due to its rates bill increasing substantially over the year - by £12.7m in nominal terms, driven by the LPS rating revaluation exercise. This more than offsets cost reductions in the business, such as the lower power costs experienced over the year. It is apparent that NI Water's opex would have continued to fall, but for the effect of the rates increase.
- 1.2.3 NI Water's £197.1m of opex spend in 2015-16 compares favourably to our regulatory allowance of £199.6m (in current prices), a difference of some £2.5m in-year.³
- 1.2.4 At the start of this PC15 period it is clear that NI Water has so-far outperformed our regulatory allowance on opex, as was the case in the previous price controls. This is shown in the figure below.

² <http://www.niwater.com/annual-report/>

³ This figure increases to £3.1m if Voluntary Early Retirement/Voluntary Severance (VER/VS) costs of £0.6m are excluded from actual spend. VER/VS was supported in principle by the Utility Regulator, but not funded through charges.

Figure 1.2: NI Water’s opex profile in real terms (2015-16 prices)⁴



1.3. Closing the Efficiency Gap

- 1.3.1 Each year we compare NI Water’s opex efficiency position with companies in England and Wales. The estimates are derived using the UR’s Corrected Ordinary Least Squares (COLS) econometric and unit cost models, as employed in the PC10, PC13 and PC15 determinations. These models are based on those used by Ofwat in PR04 and PR09.
- 1.3.2 Our analysis shows a continuing improvement profile; however, a gap still remains to the best companies in England and Wales. NI Water has closed the efficiency gap to the ‘frontier’ from around 49% in 2007-08 to an estimate of 13% in 2014-15.
- 1.3.3 The UR is in the initial stages of developing a new methodology for the assessment of NI Water’s efficiency gap. As comparator data becomes available we aim to update efficiency gap estimates for the 2015-16 year and beyond in due course.

⁴ Operating costs (opex) also include PPP/PFI costs. PPP/PFI refers to Public Private Partnership / Private Finance Initiative schemes

2.0 PC15 Monitoring Plan Performance

- 2.1.1 Tables 2.1 and 2.2 report progress against the PC15 Monitoring Plan output targets for 2015-16⁵. These targets include adjustments agreed by stakeholders to account for public expenditure budget reductions in the first year of the price control period and therefore differ slightly from those published in the UR's PC15 final determination.
- 2.1.2 Colour coding has been used to indicate whether NI Water met or outperformed its PC15 target (green), or failed its target (red).
- 2.1.3 Some targets are set for PC15 as a whole. We will report performance against these targets on a cumulative basis. Delivery against these cumulative targets is shown in hatched colours

Table 2.1 – NI Water PC15 Key Outputs for Water Services for 2015-16

Line description		2015-16 Target	2015-16 Actual	Comments
A	Consumer Service Water			
1	DG2 Properties at risk of low pressure removed from the risk register by company action	92	171	On track
2	DG2 Properties receiving pressure below the reference level at end of year	1,040	908	On track
3	DG3 Supply interruptions > 12hrs (unplanned and unwarned)	0.18%	0.10%	Target met
4	DG3 Supply interruptions (overall performance score)	1.07	1.14	Target not met
5	DG6 % billing contacts dealt with within 5 working days	99.90%	99.96%	Target met
6	DG7 % written complaints dealt with within 10 working days	99.50%	99.87%	Target met
7	DG8 % metered customers received bill based on a meter reading	99.00%	99.23%	Target met
8	Call Handling Satisfaction score (1-5)	4.65	4.59	Target not met
9	DG9 % calls not abandoned	99.00%	99.43%	Target met
10	DG9 % calls not receiving the engaged tone	99.90%	99.92%	Target met
11	Overall Performance Assessment (OPA) score (11 Measures)	218	229	Target met
12	Total Leakage (Ml/d)	163	162	Target met
13	Security of supply index	100	100	Target met
14	% NI Water's power usage derived from renewable sources	20.0%	39.8%	Target met
B	Water Quality			
15a	% overall compliance with drinking water regulations	99.79%	99.83%	Target met
15b	% compliance at consumers tap	99.69	99.74	Target met
16	% iron compliance at consumers tap	97.10	98.40	Target met
17	% Service Reservoirs with coliforms in >5% samples	0.00%	0.00%	Target met
C	Water Outputs			
18	Water mains activity - Length of new, renewed or relined mains (km)	93	115	On track
19	Completion of nominated trunk main schemes	2	2	On track

⁵ <https://www.uregni.gov.uk/publication/niw-monitoring-plan-2015-16>

20	Completion of nominated water treatment works schemes	1		On track
21	Completion of nominated improvements to increase the capacity of service reservoirs and clear water tanks	0	0	No output for yr 1
D	Serviceability			
22	Water infrastructure serviceability	Stable	Stable	Target met
23	Water non-infrastructure serviceability	Stable	Stable	Target met
E	New Output Measures			
24	Number of Catchment Management Plans	3		On track
25	Number of lead communication pipes replaced under the proactive lead replacement programme	1,844	1,922	Target met
26	Number of school visits	176	277	Target met
27	Number of other education events	57	65	Target met
28	% Service Reservoirs where sample taps have been assessed and are to required standard	0.0	0.0	No output for yr 1

2.1.4 NI Water has met or outperformed almost all of the consumer service and water output objectives set for the first year of 2015-16.

2.1.5 The company only fell below target in two areas:

- Performance for the interruptions to supply composite score exceeded the annual target. NI Water has reported that this was primarily due to a trunk main burst in November lasting greater than 6hrs which was difficult to locate and repair. The company would have met its composite score target if this incident had not occurred. This trunk main was repaired within 12hrs and therefore the company met its annual target for interruptions to supply greater than 12 hours.
- Performance on call handling satisfaction fell just short of the target of 4.65. The survey used to generate this score has been replaced by an unannounced survey of customers who have had need of contacting NI Water in the recent past. This new survey will allow us to compare NI Water to its peers both internationally and across other service providers. As far as continued calculation of the OPA is concerned, the Consumer Engagement Oversight Group (CEOG) agreed the previous survey would not be reported in future and that a score of 4.65 (equivalent to NI Water's best ever performance) will be used to calculate the company's OPA score until new KPIs are introduced at the PC15 midterm review.

Table 2.2 – NI Water PC15 Key Outputs for Sewerage Services for 2015-16

Line description		2015-16 Target	2015-16 Actual	Comments
A	Consumer Service Sewerage			
1	DG5 Properties at risk of flooding - number removed from 2 in 10, 1 in 10 and 1 in 20 risk register by company action.	6	7	On track
2	DG5 Properties on the 2 in 10, 1 in 10 and 1 in 20 risk register at the end of the year	179	160	On track
B	Quality Sewerage			
3	% of WwTWs discharges compliant with numeric consents	91.1%	92.8%	Target met
4	% of total p.e. served by WwTWs compliant with numeric consents excluding upper tier failures	98.08%	98.55%	Target met
5	Small WwTW compliance (works greater than or equal to 20p.e. but less than 250p.e.)	80.07	80.72	Target met
6	Number of high and medium pollution incidents attributable to NI Water	28	21	Target met
C	Sewerage Outputs			
7	Sewerage activity - Length of sewers replaced or renovated (km)	11	17	On track
8	Delivery of improvements to nominated UIDs as part of a defined programme of work	27	28	Marginally below profile
9	Delivery of improvements to nominated WwTWs as part of a defined programme of work	4	3	Marginally below profile
10	Small wastewater treatment works delivered as part of the rural wastewater investment programme	1	1	On track
D	Serviceability			
11	Sewerage infrastructure serviceability	Stable	Stable	Target met
12	Sewerage non-infrastructure serviceability	Stable	Stable	Target met
E	New Output Measures			
13	CSO and EO discharges at which event and duration monitoring equipment has been installed	0	0	No output for yr 1
14	WwTWs upgraded to comply with PPC Regulations	0	0	No output for yr 1
15	Impermeable surface water collection area removed from the combined sewerage network	27,000	28,560	Target met
16	Number of sustainable WwTW solutions delivered (p.e. ≥ 250)	0		On track
17	Number of sustainable WwTW solutions delivered (p.e. < 250)	0	0	No output for yr 1

2.1.6 NI Water has met or outperformed almost all of the sewerage service outputs set for the first year of 2015-16.

2.1.7 The company only fell behind anticipated delivery in two areas:

- The company delivered one less unsatisfactory intermittent discharge (UID) improvement than planned in 2015-16. This is not considered material in a 6 year delivery programme. Specific solutions and the delivery profile can change as investigations are completed and potential solutions are identified, assessed and prioritised. The PC15 programme does however contain some schemes which are known to be of higher priority and it is important that NI Water ensures that these do not slip as a consequence of more general

movements. During PC15 we will therefore check that the company maintains a focus on the delivery of these particular schemes as well as assessing whether the programme as a whole delivers equivalent 'value' to the original proposals.

- The company delivered one less wastewater treatment works upgrade than planned in 2015-16. This is not considered material in a 6 year delivery programme, where start or completion dates on specific projects might vary due to planning, mobilisation or construction issues. The company should be capable of balancing such movements across the entire PC15 programme by accelerating certain projects to offset delays in others. During PC15 we will therefore monitor delivery annually to ensure it remains broadly in line with expectations, but will ultimately assess performance against the delivery target for the period as a whole.

2.1.8 Performance against some targets can be affected by things outside the company's control, such as the weather or sampling regimes. For PC15 we identified performance ranges for water and wastewater quality to reflect this inherent variability. The 2015-16 output targets shown in Tables 2.1 and 2.2 were set at the lower limits of these ranges. Performance for all these measures was better than the minimum targets at the end of 2015, with:

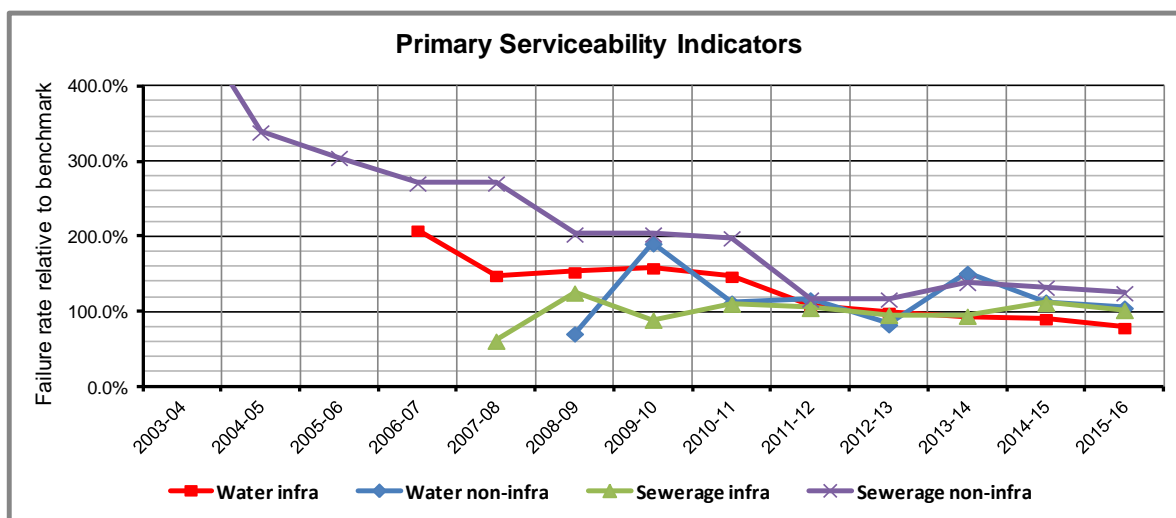
- Water quality compliance overall and at consumers taps at the middle of the range and iron compliance in the upper half of the range; and
- Wastewater compliance based on the percentage of works just below midrange and wastewater compliance based on population in the upper half of the range.

2.1.9 We use trends for a range of primary and secondary serviceability indicators to assess how the company is maintaining its assets.

2.1.10 We have updated our serviceability assessment for each primary and secondary indicator to include outturn data for 2015-16. The updated trends of the primary indicators in the four service areas are shown below. All show stable or improving trends and so we have concluded that serviceability remains stable overall.

Service	Primary service indicator
Water Infra	Mains bursts per 1,000km
Water Non-infra	Percentage of regulatory samples taken for Turbidity at WTWs which exceed 0.8 NTU
Sewerage Infra	Sewer collapses per 1,000km
Sewerage Non-infra	Number of WwTWs with one or more compliance sample result (BOD, SS or Ammonia) exceeding the numeric consent value

Figure 2.1 – Primary serviceability indicator trends⁶



2.1.11 While our current assessment is that serviceability remains stable overall, we note that a number of primary and secondary indicators, distributed across all service areas, have shown sustained improvement and have performance which now lies below the predicted performance range. We will review the control limits for these indicators and decide whether they should be adjusted to reflect this sustained improvement at our planned PC15 midterm review.

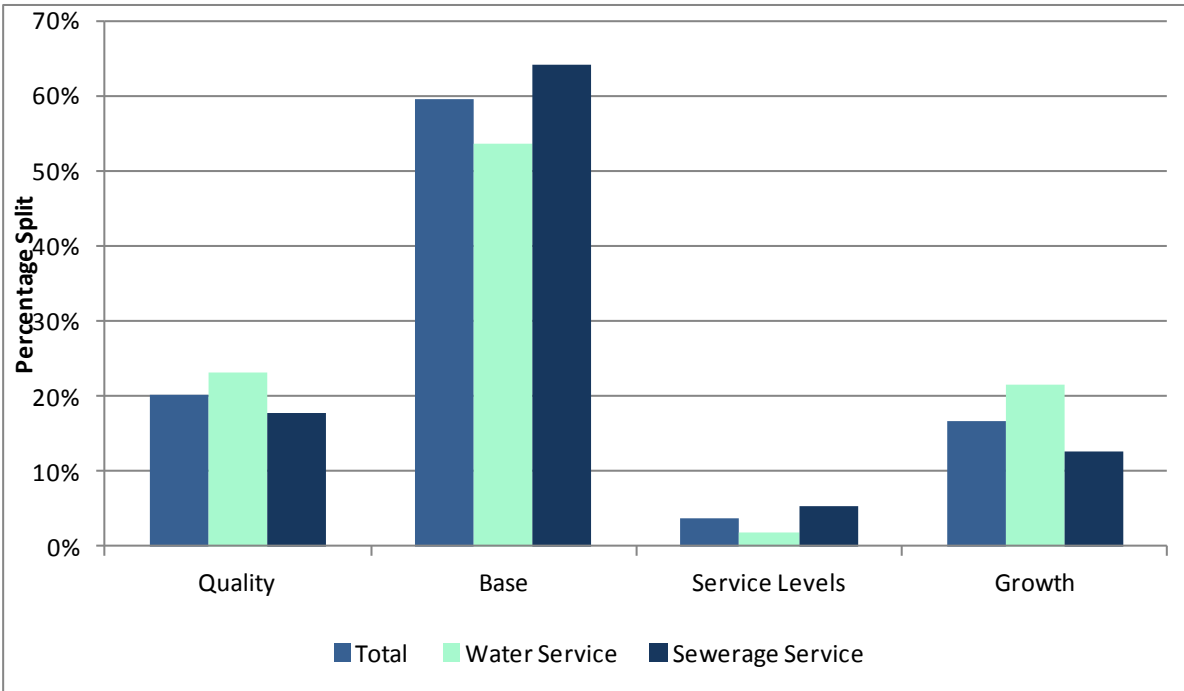
2.1.12 In 2015-16, performance of two secondary measures deteriorated to the extent that it now lies above the upper control limit of the predicted performance range. We expect the company to investigate the cause of deterioration for these indicators and to take action to restore performance to levels previously achieved as quickly as possible.

⁶ A score of 100% represents operation at the reference level benchmark.

3.0 Capital Expenditure

- 3.1.1 In 2015-16, NI Water invested £144m to maintain its existing assets, to meet more demanding quality obligations, to provide extra capacity for growth and to improve the service it currently provides. Due to reductions in public expenditure budgets, investment in 2015-16 was lower than the £157m included in the PC15 final determination and this has constrained NI Water’s ability to deliver the PC15 outputs.
- 3.1.2 The allocation of investment by purpose is shown in Figure 3.1 below. Investment to maintain the existing assets (base) is 59% of the total with 41% allocated between improvements in quality, improved services to consumers and growth.

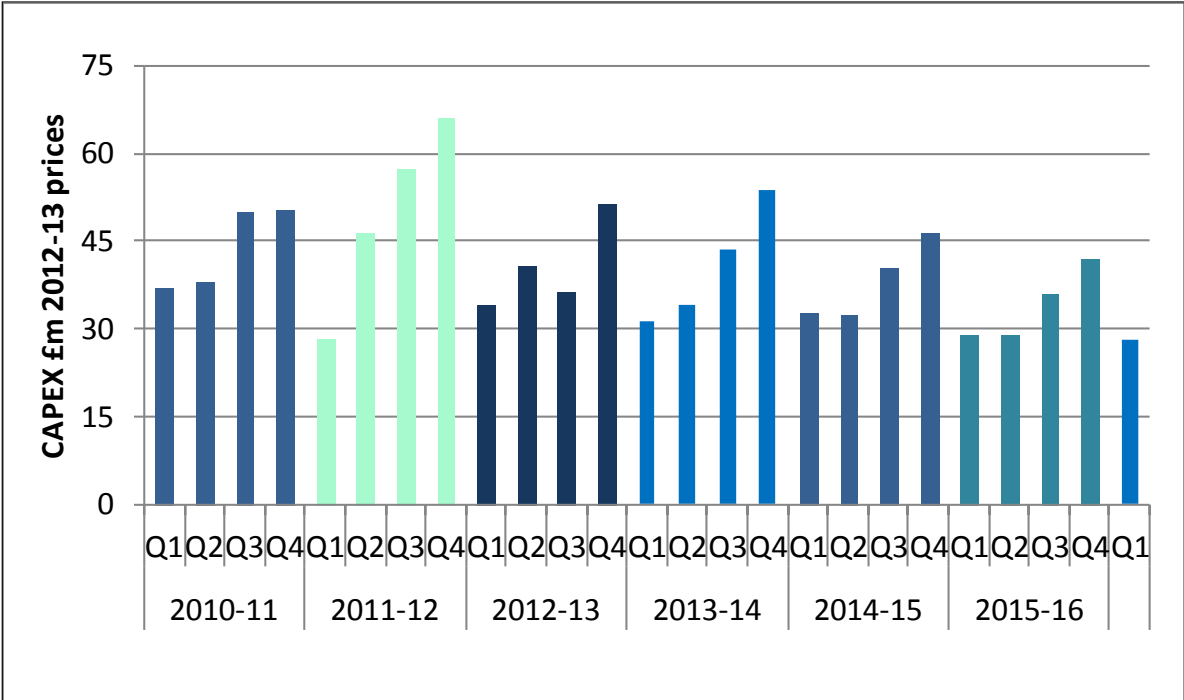
Figure 3.1: Allocation of investment in 2015-16 by service and purpose



- 3.1.3 The reduction in expenditure from that in the PC15 final determination reflects a reduction in the public expenditure capital budget made available to the company at the start of 2015-16. In line with the approach set out in our PC15 final determination, we worked with NI Water, DRD and other key stakeholders to ensure that the company continues to deliver the best possible package of outputs within the funding available.
- 3.1.4 When assessing the impact of budget reductions on output delivery, we have taken account of the fact that inflation has been lower than we assumed in our final determination for PC15 and the capital efficiency gap which forms an integral part of the final determination. Lower inflation and improved efficiency should allow the company to deliver more for less, and we expect the company to build these opportunities into its medium term plans.

- 3.1.5 Our review of delivery in 2015-16 and the company’s future plans show that some major sewerage projects, which deliver priority nominated outputs in PC15 continue to be subject to delay. We welcome the ability of the company to accelerate other work as delay occurs but note the need to deliver the nominated outputs identified in the PC15 determination.
- 3.1.6 A key component of the company’s capital programme is investment to maintain the company’s existing assets and the service they deliver (commonly referred to as base maintenance). In 2015-16, the company invested £86m in base maintenance. This is equal to the allowance in the PC15 final determination in nominal terms. However, because inflation has been lower than assumed in the final determination, we would expect the company to spend less on base maintenance over the medium term to maintain serviceability.
- 3.1.7 In previous Cost and Performance Reports, we have highlighted a consistent annual cycle of expenditure. Peak levels of investment occur in the winter months and expenditure is at its lowest level in the first quarter of each year. Figure 3.2 shows that this trend has continued into PC15. This cycle of investment, driven by annual spending constraints, remains disruptive for the supply chain and detrimental to efficient delivery.

Figure 3.2: Capital investment from 2010-11 to 2016-17Q1 by quarter



- 3.1.8 2015-16 is the first year of a 6 year Price Control. Delivery has been constrained by a reduction in the public expenditure capital budget available to the company and the company has had to respond to the challenges which come from project development and procurement. We will continue to assess cumulative delivery over the medium term taking account of changes in budget, inflation and the delivery of capital efficiency.

4.0 Customer Service

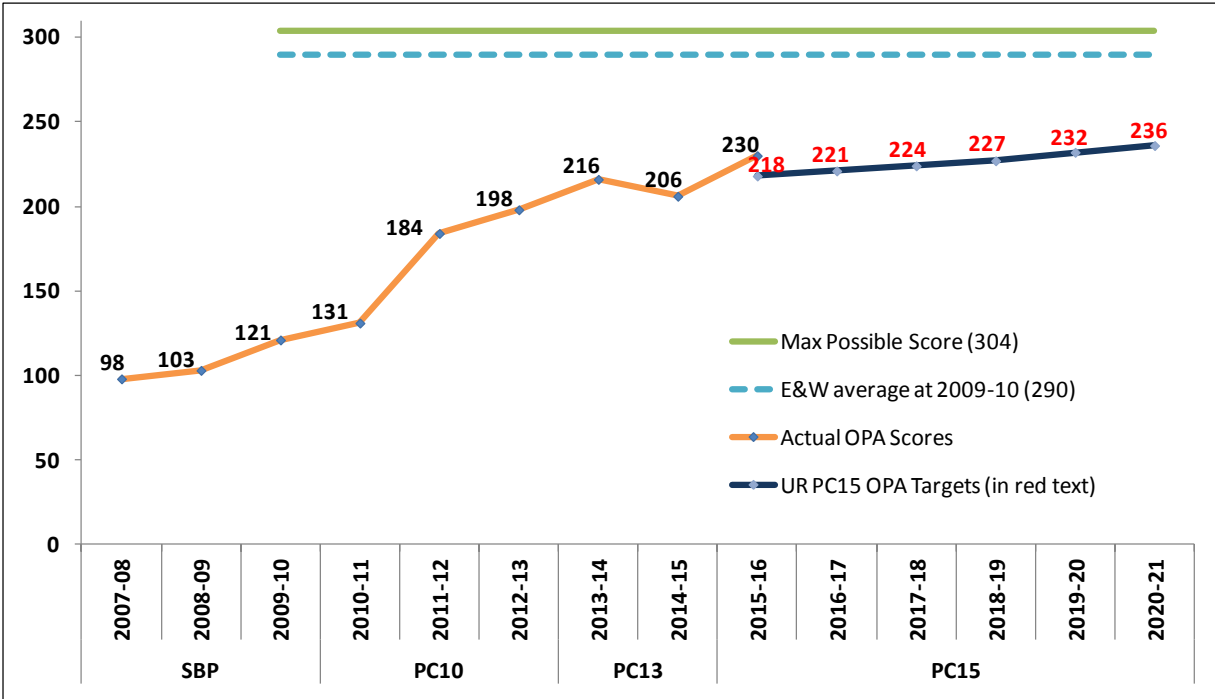
4.1. How Customer Service is Assessed

- 4.1.1 In order to fully assess how NI Water is performing, we have adopted the Overall Performance Assessment (OPA) framework. This monitors the overall level of service that NI Water provides to its customers.
- 4.1.2 Our OPA combines 11 individual service measures and scores them against a reasonable range. Scores are then weighted in order of importance and combined to give an overall picture of service level performance.

4.2. OPA Performance

- 4.2.1 The chart below details NI Water’s actual OPA scores. Key messages include:
 - With a score of 230, NI Water outperformed our PC15 OPA target (of 218) for 2015-16 by 12 points.
 - Over the 2015-16 year, service levels improved in the areas of unplanned interruptions, customer contact, risk of low pressure, sewage treatment works compliance and low category sewage pollution incidents.
 - Although there is still a service gap with English and Welsh (E&W) companies (who achieved an average score of 290 in 2009-10), the scale of the gap has been closed markedly by NI Water.

Figure 4.1: NI Water’s OPA scores



5.0 Issues of Note for 2015-16

5.1. Principal Issues of Note

5.1.1 The following specific issues relating to this reporting period are noted:

- Commencement of reporting on development outputs in 2015-16; and
- Customer measures / customer satisfaction.

5.2. Development Outputs

5.2.1 The final determination for PC15 included 18 key development objectives. These relate to areas where the UR believes NI Water needs to improve its planning capability and gather additional information to better inform and support the PC15 midterm review and its business plan submission for PC21.

5.2.2 The final determination included a requirement for NI Water to report progress on the delivery of the development objectives and this reporting requirement was added to the annual information return process for PC15. The company's first progress report was received in the annual information return for 2015-16. This initial submission did not clearly explain the progress made or the ongoing plans for delivery for all objectives. As a result we were unable to assess progress or determine whether robust delivery plans existed in all areas.

5.2.3 We wrote to NI Water identifying where we believed our reporting requirements had not been met and subsequently received a response which provided the outstanding information for the majority of the objectives. This has helped provide additional clarity in relation to progress, any delays including reasons, company plans for future delivery and changes to the original proposals.

5.2.4 The limited information submitted in relation to the strategic drainage study programme means that progress in this area remains an area of concern. This work includes the modelling and investigations work needed to inform the investment required for strategic drainage planning for Belfast and compliance with Shellfish and Bathing Water Directives. As well as being critical to investment planning for PC21, the programme has taken on added significance since our final determination as it now contributes towards broader work programmes such as DRD's Living with Water Programme and Long term water strategy.

5.2.5 It is important that NI Water maintains its focus on the delivery of this study work and the other development objectives as they are critical to effective investment planning moving forward. In doing so, the dependencies of other key work programmes should be taken into account.

5.2.6 We will continue to review the delivery of these objectives and to seek the information which will allow us to assess progress and the benefits being delivered. As part of this process we will consider whether external reviews of progress on specific objectives should be undertaken.

5.3. Customer Measures / Customer Satisfaction

5.3.1 New consumer measures have been introduced to monitor:

- Total contacts made by consumers in writing, via email or by telephone.
- ‘First Point of Contact Resolution (FPOCR)’, to improve satisfaction with contacting NI Water and to reduce the costs to the company of dealing with ‘repeat contacts’ from consumers;
- ‘Repeat contacts’ i.e. consumers who have to contact NI Water more than once about the same issue before it is resolved (the inverse of FPOCR); and
- Customer satisfaction, through surveys which include both an ‘Omnibus’ survey (of all NI Water consumers) and a new customer satisfaction survey (replacing the old OPA survey), an unannounced representative sample survey of all those who have contacted NI Water for any reason.
 - The new customer satisfaction survey questions, including Net Promoter Score or ‘NPS-style’ question, allow comparison of NI Water customer service to international peers and across other service providers. Further flexibility has been introduced to allow certain survey questions to change and focus on emerging issues for consumers.
 - At the same time the Omnibus survey of a representative sample of all consumers will gauge overall customer satisfaction, taking into account the “silent majority” who never feel the need to contact NI Water from year to year.
 - Taken together, the new surveys provide NI Water with the incentive, alongside further in-house actionable data, to continue their journey of improving customer satisfaction across the PC15 period and beyond.

5.3.2 Monitoring of the above will enable the setting of new company KPIs at the PC15 midterm review.

6.0 Price Control Periods and Reporting

6.1. PC15 (2015-21)

- 6.1.1 PC15 is NI Water's first six year price control. The maximum duration of previous price controls was three years. We took the decision to extend the period for PC15 to six years in order to promote long term planning and efficient delivery.
- 6.1.2 This 2015-16 Cost and Performance Report (CPR) assesses performance in the first year of PC15. We plan to report on NI Water's costs and performance against our regulatory price control annually throughout the PC15 period.
- 6.1.3 In developing the 2015-16 CPR, the UR has adopted a proportionate approach consistent with the review of performance in the first year of a six year delivery programme. It is our intention to undertake more extensive assessments at the midpoint and end of the PC15 price control period.

6.2. PC15 Midterm Review

- 6.2.1 In developing our approach for PC15 we introduced the concept of a planned midterm review (MTR) during PC15 in order to:
- allow for managed changes in funding;
 - provide an opportunity to implement innovative and sustainable solutions that might develop from the strategic studies and pilot projects;
 - provide the opportunity to deal with material changes which might accumulate over a 6 year price control period and result in a stepped change in prices at the start of the next price control; and,
 - avoid the regulatory burden associated with continuous change by introducing a single opportunity for re-opening the financial determination for PC15.
- 6.2.2 Section 7.4 of our PC15 final determination⁷ developed on this concept further and set out our views on the potential extent and scope of the MTR. It also set out the following indicative timetable in the event of NI Water seeking a review of K factors at the MTR:
- NI Water to inform the UR of the scope of any proposed changes at the start of June 2017.
 - NI Water to complete its submission by the 15 September 2017.

⁷ http://www.uregni.gov.uk/water/price_control/pc15/final_determination

- UR to complete its determination of K factors by 15 December 2017 so that changes can be included in 2018-19 scheme of charges.

6.2.3 In order to align with this timetable the UR will start engaging with stakeholders on the approach to the MTR early in 2017.

6.2.4 Section 7.4 of our PC15 final determination also noted that the MTR should only be as extensive as needed. Based on our assessment of funding allocations and performance to date, we anticipate that it will primarily involve a review and realignment of outputs rather than a more extensive reassessment of k factors and charges. However if further reductions in public expenditure budgets have the potential to impact on NI Water's performance this will also be taken into account.

6.2.5 We will report more fully on the extent and scope of the PC15 MTR in our 2016-17 cost and performance report, including the impact that any further reductions in public expenditure budgets, below the original provisions which were factored into the PC15 final determination, might have on planned performance.

6.3. PC21

6.3.1 The next price control period (referred to as PC21) will commence in April 2021.

6.3.2 We will start developing our approach to PC21 in 2017. This will be informed by work undertaken on the PC15 MTR and include engagement with stakeholders. Initial proposals are likely to be based on a six year price control, covering the period April 2021 to March 2027.

6.3.3 The PC21 planning process is starting earlier than in previous price controls. This will allow us to reflect on the opportunities afforded by improvements in NI Water's planning capability, development of regulatory approaches in the wider industry and NI Water delivery in the first half of PC15. It will also require consideration of the longer term impact of any sustained budgetary reductions in PC15.

6.3.4 It should also allow earlier consideration of investment priorities by stakeholders to help inform the development of the Department's Social and Environmental Guidance.