

Water and Sewerage Services

PC15 Mid-term Review Approach

The Utility Regulator's Approach to the PC15 MTR

May 2017



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. NI Water is currently in its third regulatory price control period, PC15, which covers the period from April 2015 to March 2021. In our PC15 approach document and our final determination we outlined our intention to undertake a PC15 mid-term review during the PC15 period. This document sets out our proposed approach for undertaking this review.

Audience

DfI, NI Water, NIEA, CCNI, DWI.

Consumer impact

This document explains our proposed approach for the PC15 mid-term review. It includes how we will assess the improvements that have been and could be delivered for consumers during the PC15 period.

Cost and Performance Report for 2015-16

Contents

- Foreword2**
- 1.0 Introduction.....3**
 - 1.1. Regulatory Context..... 3
 - 1.2. Overview of NI Water Price Controls 3
 - 1.3. Provision for a PC15 mid-term review..... 4
- 2.0 The Mid-term Review Process.....6**
 - 2.1. A proportionate approach 6
 - 2.2. Engagement and consultation 6
- 3.0 Our approach to Specific Areas.....7**
 - 3.1. Background 7
 - 3.2. Capital Investment..... 8
 - 3.3. Operating Expenditure..... 10
 - 3.4. PC15 Outputs..... 11
 - 3.5. Development and introduction of new consumer measures..... 13
 - 3.6. Delivery of Social and Environmental Priorities..... 14
 - 3.7. Major scheme development..... 14
 - 3.8. PC15 Programme changes..... 15
 - 3.9. Delivering sustainable outcomes 15
 - 3.10. Tariff adjustment..... 15
- 4.0 Mid-term Review Timeline17**

Foreword

Northern Ireland Water (NI Water) is currently in its third regulatory price control period, PC15. This covers the six year period from April 2015 to March 2021, a much longer duration than any of NI Water's previous price controls.

When we published our approach to PC15 and our final determination on the company's investment proposals, we noted the potential uncertainty associated with the development of a longer term investment plan and the provision of funding on an annual basis through a public expenditure regime.

In recognition of this, we proposed that PC15 should include a mid-term review so that the company's investment proposals could be reviewed and if necessary amended as a consequence of any changes that might have occurred in the first half of the price control period.

The mid-term review was also intended to provide an opportunity for NI Water's progress in delivering the key development outputs required to support its investment planning for PC21 to be reviewed.

We have now commenced this process and this document explains the approach we intend to adopt for the mid-term review and the timescale to completion.

It builds upon the outline proposals included in our PC15 approach document and final determination and explains the extent and scope of the work that will be undertaken through reference to specific elements of our price control determination.

1.0 Introduction

1.1. Regulatory Context

1.1.1 The Utility Regulator's (UR) primary role within the Northern Ireland water industry is to promote and protect the interests of the consumer, both today and in the future.

1.1.2 NI Water is a government-owned company which is responsible for providing water and sewerage services to consumers in Northern Ireland. Since it is the sole provider of these services, the UR regulates the amount of revenue the company receives.

1.1.3 Our determination of the company's revenue requirement is undertaken through periodic price controls, one of our principal regulatory processes. These:

- Establish the funding required by NI Water to meet departmental targets for the price control period contained within Social and Environmental Guidance;
- Require NI Water to deliver enhanced regulatory outputs, continued investment, improvements in service and efficiencies; and,
- Aim to ensure value for money for consumers and determine how much money the company is allowed to charge.

1.1.4 The domestic consumer charge and the domestic allowance for commercial consumers is met by Government subsidy through public expenditure (PE) mechanisms. The remainder of the charge for commercial consumers is recovered through bills. NI Water's reliance on government funding for the majority of its revenues, means it is also classified as a non-departmental public body for public expenditure (PE) purposes. As a result it is subject to the rules that govern PE and is required to operate within PE limits set by the NI Executive.

1.1.5 Our price controls are set in the context of the PE environment and specific regulatory processes have been established to allow spending constraints to be accommodated if required. In the event of PE reductions for the provision of water and sewerage services we work with the company and other stakeholders to ensure that NI Water delivers the best possible package of outputs within the revised funding allocation. This includes agreeing changes to outputs and/or prices if appropriate.

1.2. Overview of NI Water Price Controls

1.2.1 NI Water's first two price controls, known as PC10 and PC13, covered the three year period (2010-13) and two year period (2013-15) respectively. NI Water is currently in its third regulatory price control period, known as PC15, which began on 1 April 2015 and runs for six years until 31 March 2021.

- 1.2.2 Our approach to PC15 was developed in the context of the department formulating a long-term water strategy for Northern Ireland. The department's strategy covers a 24 year horizon and aims to deliver a more strategic, holistic and integrated approach to the management of all aspects of the water and sewerage industry.
- 1.2.3 The move to a longer timescale for PC15 recognised the need to provide a more stable and predictable framework to support the long term water strategy and the benefits that a longer price control period can deliver in terms of promoting planning and efficient delivery.
- 1.2.4 A period of 6 years was chosen to provide an appropriate balance between allowing sufficient time for efficient planning/delivery and the potential uncertainty of outcome associated with planning over the long term.
- 1.2.5 The next price control period (referred to as PC21) will commence on 1st April 2021. The development of our approach to PC21 will commence towards the end of 2017. This will be informed by the outcome of the assessments undertaken through the PC15 mid-term review.

1.3. Provision for a PC15 mid-term review

- 1.3.1 In establishing our approach for PC15, we recognised:
- The additional uncertainty that might be associated with a longer investment planning period;
 - That changes in PE funding during the period had the potential to impact on budget availability; and,
 - That work undertaken in the early part of the price control period might help inform delivery proposals for the remainder in the period.
- 1.3.2 We therefore introduced the concept of a planned mid-term review during PC15 in order to:
- Allow for managed changes in funding;
 - Provide an opportunity to implement innovative and sustainable solutions that might develop from strategic studies and pilot projects undertaken early in PC15;
 - 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.
- 1.3.3 [Section 7.4 of our PC15 final determination](#) explained the potential remit of the mid-term review. It also listed the elements of the price control that would not be reconsidered in a mid-term review.

1.3.4 This approach document outlines our current proposals for the PC15 mid-term review following further consideration. It explains the extent and scope of the mid-term review through reference to the key elements of our PC15 final determination and sets out the proposed timetable for completion.

1.3.5 Its development has been informed by the funding provision and the performance delivered by NI Water during PC15 to date. It also accounts for feedback received following initial engagement with our principal stakeholders:

- Department for Infrastructure (DfI)
- Northern Ireland Water (NI Water)
- Consumer Council for Northern Ireland (CCNI)
- Drinking Water Inspectorate (DWI)
- Northern Ireland Environment Agency (NIEA)

2.0 The Mid-term Review Process

2.1. A proportionate approach

2.1.1 The UR's intention when introducing the concept of a mid-term review was that it should be limited to those areas where it would provide benefit and that it should not result in a full price control process if possible.

2.1.2 Our approach has been developed in this context and in developing our proposals we have taken into account:

- The established processes that already exist for managing changes that might typically occur in a price control period, including those associated with modest changes in PE funding, i.e.:
 - The Memorandum of Understanding (MoU) and Consequent Written Agreement (CWA) between the Utility Regulator and the Department;
 - The stakeholder Change Control Protocol; and
 - The logging up and down process applied in the next price control.
- Opportunities for the mid-term review to feed off existing annual regulatory processes and sources of information, such as the annual information return.

2.1.3 We believe that this has resulted in a reasonable and proportionate approach which will help minimise the input required from those involved in the process.

2.2. Engagement and consultation

2.2.1 Our intention is that the mid-term review process should be as open, transparent and collaborative as possible. To ensure that this is the case we will engage regularly with principal stakeholders throughout the process.

2.2.2 This engagement commenced early in February 2017. The timings and frequency of subsequent meetings will be agreed as the process progresses. Where possible these will be combined with established meetings to minimise any regulatory burden.

2.2.3 We do not propose incorporating any broader engagement in the mid-term review process. This decision is based on the anticipated extent of the review and the fact that significant changes to the regulatory settlement are not anticipated.

2.2.4 Broader engagement, including a further assessment of consumer priorities, will be incorporated into the PC21 process. This will commence towards the end of calendar year 2017 following completion of the mid-term review.

3.0 Our approach to Specific Areas

3.1. Background

3.1.1 The mid-term review was always expected to consider the following:

- The impact of changes in funding, including the effect on output delivery and the need to review tariffs;
- Capital maintenance funding levels and serviceability to check whether the PC15 final determination assessments remain valid;
- A review of the target performance bands set for water quality and environmental compliance performance measures;
- A review of leakage targets following completion of the new sustainable economic level of leakage assessment in 2017;
- A review of progress against the development outputs included in the PC15 final determination to determine whether NI Water's capability and techniques are being developed sufficiently to support more robust business planning for PC21;
- The incorporation of new consumer measures and targets developed and agreed through the CM/SAT stakeholder group; and,
- The specific requirements for a list of defined schemes following submission of further updates to the UR by NI Water;
- Investment programme changes required due to emerging pressures;
- Investment requirements identified through the Water Resource and Supply Resilience Planning assessment in 2017; and,
- Opportunities for implementing any innovative and sustainable solutions proven in the early part of PC15.

3.1.2 The following sections of this report explain the approach we intend to take on individual elements of the price control in the mid-term review.

3.2. Capital Investment

Mid-term review planning scenarios

- 3.2.1 NI Water invests capital expenditure to maintain its existing assets, meet more demanding quality obligations, provide extra capacity for growth and improve the service it currently provides to consumers.
- 3.2.2 Any reduction from NI Water's PC15 final determination allowance in real terms as a consequence of reductions in PE will therefore constrain NI Water's ability to deliver the PC15 outputs and associated service improvements for consumers.
- 3.2.3 NI Water has already had to adjust outputs in years 1 and 2 of the price control period as a consequence of funding reductions resulting from PE constraints. In line with the approach set out in our PC15 final determination, we worked with NI Water, DfI and other key stakeholders to ensure that the company continued to deliver the best possible package of outputs within the funding available.
- 3.2.4 Confirmation of NI Water's budget for 2017-18 will not be possible until either the NI Assembly is restored or alternative governance arrangements are established. In the interim NI Water has been told to use 90% of the capital figure included in the Investment Strategy for Northern Ireland as an indicative budget for planning purposes.
- 3.2.5 For the purposes of the mid-term review we will ask NI Water to submit two investment plans.
- A 'baseline scenario' in which NI Water will be asked to confirm the full list of nominated outputs that it could have delivered for the nominal budget allocation identified in the PC15 final determination.
 - A 'planning scenario' in which NI Water will be asked to confirm the list of nominated outputs it could deliver, based on the indicative budget for 2017-18 and a capital budget reduction of 10% (i.e. similar to the actual and indicative reductions for the first three years of PC15) for the remainder of the period. Actual delivery will be used for years 1 and 2.
- 3.2.6 We will agree the extent of the information to be submitted for these scenarios with NI Water, but expect it to include the scheme name, the overall investment requirement and the benefits the scheme is expected to deliver (for example in improving quality in a particular water body or removing development constraints in a particular town or area).
- 3.2.7 Producing the baseline will clarify the improvements that the final determination could deliver for consumers if fully funded. This will also allow the impact of any potential budget reductions in the future to be more easily identified, quantified and explained.
- 3.2.8 In the absence of budget confirmation for the remainder of PC15, the planning scenario will provide stakeholders with a benchmark for the potential impact and loss of benefit over the entire period based on a planning assumption which broadly aligns with funding provision to date.

- 3.2.9 When assessing the impact of budget reductions on output delivery in 2015-16 and 2016-17 we accounted for differences between actual inflation and that assumed in our final determination, as well as the capital efficiency challenge which formed an integral part of the final determination.
- 3.2.10 NI Water will be expected to adopt the same approach, including the use of current inflation projections, when developing its list of schemes for each mid-term review planning scenario.
- 3.2.11 It is recognised that further submissions on adjusted outputs may be necessary when actual budget provisions are confirmed. These will continue to be subject to separate assessment and challenge to ensure that NI Water delivers the best possible package of outputs within the allocation provided.

Base maintenance investment

- 3.2.12 A key component of the NI Water's capital programme is investment to maintain its existing assets and the service they deliver. This is referred to as base maintenance expenditure and equates to approximately 55% of the company's capital expenditure.
- 3.2.13 In line with consumer expectations and the requirements of the S&EG, the current policy agreed by stakeholders is to maintain base maintenance expenditure at the levels identified in the PC15 final determination irrespective of any budget reductions resulting from PE constraints. This is intended to ensure that no overall deterioration in the asset base and the associated service provided to consumers occurs.
- 3.2.14 This policy is not expected to change in the short term and so NI Water will be asked to continue to apply it when developing its planning scenario for the review.
- 3.2.15 It should be noted however that the UR's PC15 allowance for base maintenance was based on the budget required to maintain the company's assets expressed in real terms. NI Water will therefore have to reassess the nominal budget required for base maintenance taking account of actual or projected inflation for it to be able to calculate the remaining nominal budget available for 'enhancement'.
- 3.2.16 Our primary mechanism for assessing whether the company's base maintenance allocation is sufficient is our serviceability assessment. This uses trends for a range of primary and secondary indicators to assess if assets are being maintained effectively.
- 3.2.17 [Annex G](#) of our final determination explains the assessment process, the outcome of our assessment for PC15 and the performance bands chosen for monitoring performance during the PC15 period.
- 3.2.18 We assess actual performance against the serviceability performance bands annually for our annual cost and performance report. This assessment considers whether the performance for individual indicators is stable, improving, deteriorating or marginal across four different service areas and allows us to conclude whether serviceability is being maintained overall.

3.2.19 We will update our serviceability assessment for the mid-term review using the updated information and longer data trends received in the 2016-17 annual information return. This assessment will allow us to consider and comment on whether:

- Performance to date supports the capital maintenance allowance included in the PC15 final determination, or provides any indication that this needs to be adjusted;
- The reference levels and control limits set in the final PC15 final determination remain valid or need to be adjusted.

Enhancement investment

3.2.20 The remaining 45% of NI Water's capital funding is spent on enhancing the company's assets to deliver improvements for consumers. This would include meeting enhanced quality obligations, providing extra capacity to accommodate growth/development and improving the service provided to consumers (for example by reducing incidents of low pressure or flooding).

3.2.21 As indicated previously, NI Water is to maintain base maintenance expenditure at levels stated in the final determination in real terms for the mid-term review planning scenario assessment. Assumed budget reductions will therefore primarily impact on the enhancement element of the budget and the improvements that this could deliver for consumers.

3.2.22 In the mid-term review we will evaluate NI Water's planning scenario assessment and will comment on the potential impact that the assumed funding cuts could have for consumers through reference to specific schemes and the benefits they would deliver.

3.3. Operating Expenditure

3.3.1 We are aware that NI Water has provided an overview of the potential implications of a range of opex planning scenarios to the department in the past.

3.3.2 We do not intend asking NI Water to undertake any additional detailed assessments of the specific impacts of any opex planning assumptions as part of the mid-term review process. In our opinion this would be a complex task which would best be undertaken subsequently when clarity on the actual resource funding provision becomes available.

3.3.3 We will however comment on NI Water's outturn performance in the first two years of the PC15 period against its adjusted opex allowances and the potential for adjustments in capital investment to impact on opex requirements.

3.4. PC15 Outputs

Background

- 3.4.1 During a price control period water and sewerage companies deliver a series of outputs which aim to secure the outcomes consumers want.
- 3.4.2 For PC15 we assessed NI Water's proposed outputs in line with the anticipated level of investment and the priorities set out in the departments S&EG. The outputs included in the final determination formed part of an overall package which the company was expected to deliver.
- 3.4.3 In 2015-16 and 2016-17 some of the PC15 output targets were amended due to levels of funding being reduced below those anticipated in the final determination as a consequence of PE constraints.
- 3.4.4 The sections below identify the types of output included in the PC15 final determination and how we intend to treat them in the mid-term review. This includes reference to the year 1 and 2 adjustments and the planning scenarios proposed for the mid-term review.

Service level outputs

- 3.4.5 Service level outputs measure the impact of investment on the level of service experienced by consumers. For example the response to consumer contacts, the number of properties at risk of low pressure or flooding or the number of customers experiencing interruptions to supply.
- 3.4.6 For the mid-term review we will:
- Review performance to date against final determination targets as well as those that have been revised to account for PE reductions in years 1 and 2 of PC15. This will allow us to comment on the impact of budget reductions to date on the improvements originally planned as well as NI Water's success in delivering against its adjusted targets.
 - Review and comment on NI Water's assessment of the potential impact on overall delivery of ongoing budget cuts under the assumed planning scenario. This will include the impact on the overall performance assessment (OPA) projections for the PC15 period.
 - Review the performance bands set for the water quality and environmental compliance measures, using actual and projected performance, to determine whether they remain valid.
 - Review the leakage targets set in the final determination against the company's latest sustainable level of leakage assessment and performance to date to determine whether they need to be adjusted.

General Activities

3.4.7 We include general activities, such as the rate of replacement of water mains or the replacement of sewerage, as outputs where it is not possible to establish a clear link between activity and service level outputs in the short term. This ensures that NI Water put forward robust plans for each price control period against which delivery can be monitored.

3.4.8 For the mid-term review we will:

- Review performance to date against final determination targets as well as those that have been revised to account for PE reductions in years 1 and 2 of PC15. This will allow us to comment on the impact of budget reductions to date on the improvements originally planned as well as NI Water's success in delivering against its adjusted targets.
- Review and comment on NI Water's assessment of the potential impact on overall delivery of ongoing budget cuts under the assumed planning scenario. However we note that these are primarily base maintenance programmes and would therefore expect the impact, if any, to be minimal.

Nominated Outputs

3.4.9 Nominated outputs are specific items, often identified by the quality regulators, such as improvements to treatment works so that discharge standards meet mandatory legislative requirements. They also include a number of specific improvements that NI Water has identified as nominated outputs in its business plan, such as trunk main schemes and the provision of additional water storage capacity.

3.4.10 The PC15 final determination included a list of named priority outputs which NI Water was expected to deliver through its capital investment programme. It also included a number of challenges and adjustments which provided the scope for delivery of further outputs within its overall nominal budget allocation. Although these schemes were not named, the requirement to deliver them, and the associated improvements for consumers, was an integral part of our final determination.

3.4.11 For the mid-term review we will:

- Review the full list of nominated outputs that NI Water have identified within its baseline planning scenario (including those not previously named) to ensure that they are reflective of improvements that could be delivered for the final determination allowances and stakeholder priorities.
- Review performance to date against final determination targets as well as those that have been revised to account for PE reductions in years 1 and 2 of PC15. This will allow us to comment on the impact of budget reductions to date on the improvements originally planned as well as NI Water's success in delivering against its adjusted targets.
- Review and comment on NI Water's assessment of the potential impact on overall delivery of ongoing budget cuts under the assumed planning scenario.

Development outputs

- 3.4.12 The final determination for PC15 included 18 key development objectives to try to help ensure NI Water developed its capability and introduced new techniques to improve planning and the service delivered to consumers over the longer term. These objectives included areas where we considered development to be necessary to support NI Water's PC21 business plan submission and outputs that could not necessarily be monitored using numerical targets.
- 3.4.13 For the mid-term review we will:
- Assess NI Water's progress in delivering the development outputs included in the PC15 final determination. This will include whether any specific milestones set out in the final determination have been met and whether we consider sufficient progress is being made to support the company's PC21 submission.
 - We will use stakeholder engagement and technical expert review to help inform our assessment of progress where we deem this appropriate.

Output data provision

- 3.4.14 All of the output types listed above form part of NI Water's annual information return. We will therefore use the data which NI Water provides in its annual return submission in July for the mid-term review rather than asking for a separate submission. This will help to reduce the burden of the process on the company.

3.5. Development and introduction of new consumer measures

- 3.5.1 [Section 3.10 of our PC15 final determination](#) explained the work being undertaken by the CM/SAT Working Group to develop alternative and more meaningful consumer measures and satisfaction survey.
- 3.5.2 The final determination explained the CM/SAT Working Group's proposals for developing the new measures and satisfaction survey. It also identified a potential timeline for their implementation and adoption during PC15.
- 3.5.3 The mid-term review will explain the progress made by the working group in developing and implementing the new measures and survey. It will describe what measures the CM/SAT has decided to use and make recommendations on when they should replace existing measures for the purposes of target setting and performance monitoring.

3.6. Delivery of Social and Environmental Priorities

- 3.6.1 As detailed in Section 1.1, our price control determination establishes the funding required by NI Water to meet the priorities contained within the department's Social and Environmental Guidance (S&EG). A number of these priorities are not directly covered by the outputs listed in tables 3.2 and 3.4 of our determination, for example some elements now associated with supporting the Executive's living with water programme.
- 3.6.2 In its initial engagement on the mid-term review, the department expressed a desire for the review to include an overview of progress against the S&EG priorities. In previous price controls, assessment of delivery has primarily occurred at the end of the price control period.
- 3.6.3 We see merit in incorporating a review of S&EG delivery in the mid-term review and also ensuring regular reviews of progress are undertaken over the remainder of the PC15 period. This will keep stakeholders informed of ongoing progress and allow any issues with delivery, including those associated with funding changes, to be identified early so that the potential for remedial action can be considered.
- 3.6.4 As a result, reporting of progress on delivery of the S&EG priorities has been added to NI Water's annual information return. An assessment of the progress reported by the company will be included in the mid-term review and subsequent annual cost and performance reports.

3.7. Major scheme development

- 3.7.1 In Section 6.23 of [Annex K](#) of our PC15 final determination we listed five major schemes where the benefits **W**ere not yet confirmed or the scheme had not been developed sufficiently to allow us to make an informed determination on the requirements:
- Head Office rationalisation;
 - Caugh Hill WTW water quality improvements;
 - Carmoney to Strabane trunk main;
 - Moygashel WWTW upgrade; and
 - North Ards WWTW upgrade.
- 3.7.2 This annex stated that the company would be expected to provide us with an update on each scheme for determination at the mid-term review.
- 3.7.3 To date we have received updates from the company on the Carmoney to Strabane trunk main and North Ards WwTW which we are currently assessing.
- 3.7.4 NI Water will be expected to provide updated submissions for the remainder of the schemes as part of the mid-term review process so that we can include our determination on the company's proposals in our final report.

3.8. PC15 Programme changes

- 3.8.1 It is recognised that there can be a need to make changes to the planned delivery programme during a price control, for example as a result of changing regulatory standards, changes in funding or emerging pressures.
- 3.8.2 Our established regulatory processes already include a formal Change Control Protocol which allows these changes to be accommodated and managed. This sets out the procedures and steps that key stakeholders have to follow to control changes to outputs. It provides a structured framework for managing change and ensuring that: changes have been agreed by stakeholders; that the necessary funding is available; and, that changes are reflected in associated documentation and monitoring processes.
- 3.8.3 NI Water has already notified stakeholders of proposed changes to the PC15 programme through a draft change control submission. In addition we are aware of other emerging requirements due to enforcement by DWI and the outcome of NI Water's Water Resource and Supply Resilience Planning process for the period 2017-18 to 2042-43.
- 3.8.4 NI Water will be asked to identify all existing or emerging investment requirements so that these can be assessed against the baseline and planning scenario delivery programmes developed for the mid-term review. This will allow stakeholders to make informed decisions on investment priorities for the remainder of the period.
- 3.8.5 Any proposals should be supported by business cases explaining the need and the extent of the investment so that this can be assessed.

3.9. Delivering sustainable outcomes

- 3.9.1 When outlining the potential approach to the mid-term review in the PC15 final determination, we noted that it would consider the opportunities for implementing any innovative and sustainable solutions proven through the strategic studies and pilots undertaken by NI Water in the early part of PC15.
- 3.9.2 We will consider these opportunities through our review of the outputs delivered to date by NI Water and through ongoing engagement with the company during the the mid-term review. We therefore expect NI Water to highlight any emerging opportunities identified through work completed to date as part of the process.

3.10. Tariff adjustment

- 3.10.1 The outline mid-term review proposals and timetable set out in our final determination allowed for a review of tariffs, if required, to avoid material changes in revenue accumulating over a 6 year price control and causing a stepped change in prices at the start of the next price control.
- 3.10.2 It proposed that the mid-term review should provide a single opportunity to re-open the financial determination to take account of:

- Any relevant items bids already determined as part of the regular monitoring of the company to the extent that they impact on regulatory funding;
- Any material change to capital funding determined through the change control protocol including any material increase or decrease in capital maintenance investment;
- Any material change in customer numbers and demand; and
- Any material change in costs which cannot be defined with any certainty in the business plan – for example the cash tax position of the company.

3.10.3 Our current assessment is that a review of K factors will not be necessary at the mid-term review, but will keep this under review as the process progresses and further information (for example the scale of PE constraints) becomes available.

3.10.4 We would also remind NI Water that if it wishes to propose a review of K factors it would need to:

- Inform the UR of the scope of any proposed changes at the start of June 2017; and,
- Complete its submission by the 15 September 2017 so that the UR can complete its determination of K factors by 15 December 2017 and incorporate changes in 2018-19 scheme of charges.

4.0 Mid-term Review Timeline

- 4.1.1 Section 7.4 of our PC15 final determination set out an indicative timetable for the mid-term review concluding in December 2017. The proposed timetable outlined below has been developed in line with this overall timeframe. It also takes account of NI Water's assessment of the timescales required to prepare and submit the information needed to inform the mid-term review.

Phase 1: Initial consultation and approach development	Date
Commence planning for the mid-term review	Jan 2017
Principal stakeholder consultations on approach	Feb/Mar 2017
UR issues draft approach document to stakeholders	Mid Apr 2017
UR publishes final approach document	Early May 2017
Phase 2: Information return and assessment	Date
NI Water submits calendar year compliance data	May 2017
NI Water submits both Capex planning scenario programmes	End May 2017
NI Water submits AIR17 data	14 July 2017
NI Water provides its consolidated mid-term review submission	End Sept 2017
UR assesses NI Water submissions	May - Oct 2017
Phase 3: Completion and publication of mid-term review report	Date
UR issues draft report to stakeholders for consultation/feedback	Mid Nov 2017
UR publishes final report taking account of feedback	End Dec 2017