



Northern Ireland
Assembly

Committee for Infrastructure

OFFICIAL REPORT (Hansard)

Briefing by Northern Ireland Authority
for Utility Regulation

21 October 2020

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Miss Michelle McIlveen (Chairperson)
Mr David Hilditch (Deputy Chairperson)
Ms Martina Anderson
Mr Roy Beggs
Mr Cathal Boylan
Mr Keith Buchanan
Mrs Dolores Kelly
Ms Liz Kimmins
Mr Andrew Muir

Witnesses:

Ms Tanya Hedley	Northern Ireland Authority for Utility Regulation
Mr John Mills	Northern Ireland Authority for Utility Regulation

The Chairperson (Miss McIlveen): I remind members that Hansard is recording the session. I welcome Tanya Hedley, who is director of compliance and network operations, and Mr John Mills, who is head of network price regulation. Thank you for joining us. If you would like to make your presentation, members will follow up with questions.

Ms Tanya Hedley (Northern Ireland Authority for Utility Regulation): Thank you very much for the opportunity to present to you on price control 21 (PC21), which is the biggest price control that our organisation has ever done. While we are here, we will happily answer any questions that we can on any other infrastructure-related issues in which you may have an interest. I will cover the first few slides before handing over to John to go into some of the detail. My title has changed slightly, and I am now director of networks. I am now responsible for regulating electricity, water and gas in Northern Ireland, as well as all of the network companies that are engaged in those activities.

PC21, for Northern Ireland Water (NIW), is the largest price control that my organisation has ever completed for any of those companies. It covers six years and a total of £1.68 billion of investment. That is a very large amount, but it is desperately needed. I am sure that you are aware that, due to past underinvestment, there are a number of constraints on Northern Ireland Water's network. This level of investment — £1.68 billion — will not address all of those constraints. We asked the company to assess what was deliverable within the price control period and not to make unrealistic assumptions about what it would be able to do over the six years. This is what Northern Ireland Water believes that it can achieve and what we believe that it can achieve, if it is fully funded.

It is important to us that Northern Ireland Water has security of funding. It would also be very valuable for its delivery if it had confidence in a three-year capital budget, which is coming elsewhere in the UK.

In fact, that is accepted practice in GB. Even in these times of great uncertainty, it has been accepted in the UK that, for infrastructure, confidence in three-year capital funding adds significant value to ensuring efficient delivery.

Ours is an independent, non-ministerial department. We are set up through legislation, our duties are given to us by the Assembly, and we cover electricity, water and gas. We use competition, where appropriate, to regulate. There is competition in the retail markets in Northern Ireland and in the all-island wholesale market. My specific duties relate to the network companies. I am responsible for protecting the interests of electricity consumers, promoting gas and protecting the interests of water and sewerage customers.

I will say a little about why regulation was put in place originally. We expect these essential services, which consumers rely on, to be of high quality and provide good value for money. Economic theory would say that a competitive market provides that. However, given the services that these networks provide, it would not make sense to have more than one network. As there is no competition, it is important that the charges are appropriate. As regulators, it is our job to ensure that these costs are appropriate. Having a regulator that is independent from the Government means that companies that borrow in stock markets and raise debt have greater certainty and can borrow at a lower level, which brings costs down for consumers.

I will move on to the responsibilities that the Government have given us. We issue and monitor licences. The companies that we regulate and issue licences to are defined in law. We set standards of service. We aim to keep bills as low as possible but, in doing so, we take account of what consumers pay now and what they will pay in the future. We rule on complaints and appeals. It is worth saying that my organisation has returned £1.57 million from regulated companies that did not meet the standards that we expect. We ensured that £845,000 of that money was returned to charities in Northern Ireland that are involved with consumers whom we felt had been harmed through these companies not meeting that standard of service. So, those consumers benefited from that money.

It is important that we ensure that investment in innovation takes place, because we are looking to the future and the long-term sustainability of these companies. We also want to promote change, where appropriate, which is why we have a retail market in both gas and electricity, and people have the ability to switch their electricity supplier.

I will move on to our role in Northern Ireland Water. As I identified, we regulate as per the legislation. It is important that we talk to other stakeholders and ensure that we are meeting their needs. Northern Ireland Water is in the "enviable" position of having three regulators: the drinking water inspectorate, the Environment Agency, and we engage very closely with the Consumer Council in Northern Ireland.

The Department for Infrastructure (DFI) is both the shareholder and the body that sets policy for Northern Ireland Water, and it is very important that we engage closely with that Department. One of the things that we take account of when looking at price controls is the social and environmental guidance that the Department sets. That gives us clear guidance on policy and on what is required for Northern Ireland Water from this price control period.

Before I hand over to John, I want to talk a little more about the consumer side. Our main duty is to protect consumers. That is a very important focus for us. It is important that the consumer is in the room as we think about some of the decisions that we make. We must ensure that we deliver for the people who receive this service. It is worth noting that commercial businesses in Northern Ireland pay for their water and sewerage services. They want to have comfort that they will receive the service that they are paying for, that their bills are appropriate and that the service is of the quality that they expect.

There is ongoing change. We are very focused on the fact that consumer needs in our society are changing. We have a programme looking at consumer best practice. We are focused on vulnerability. The level of vulnerability in Northern Ireland is increasing in these uncertain times. It is important that Northern Ireland Water, when it is serving these customers, takes account of their specific needs and that it is not a blanket, one-size-fits-all service. It needs to take account of individual needs. We will look for Northern Ireland Water to build on the consumer engagement and consumer service that it provides and to improve on those through this price control period. We also are looking for it to continue to improve its efficiency and costs and to deliver things like the Living with Water programme, which, as I am sure you are aware, addresses specific issues associated with Belfast. We will monitor Northern Ireland Water through this price control period as we have through past price control periods,

and we will produce an annual cost and performance report. The Committee might be interested in that in the future.

That was my high-level piece on regulation and price control. I will now ask John to go into a little more detail on the document that we have just published. Thank you.

Mr John Mills (Northern Ireland Authority for Utility Regulation): Thank you, Tanya. I will continue with a short presentation of some of the key points from the PC21 draft determination, which we published at the end of September. The determination provides us with an assessment of what Northern Ireland Water can deliver over the six-year period from 2021 to 2027, and at what cost. I will start with the plan from the consumer perspective and then move on to look at information, operational expenditure and capital expenditure. I will then say a little about the impact on overall revenue and bills for consumers who pay in the commercial sector. Finally, I will recap and highlight some of the key benefits that the plan will deliver.

I will begin with the perspective of the consumer. Price control is underpinned by consumer engagement, which was developed in conjunction with the Consumer Council, the Department and Northern Ireland Water. It included consumer research by Ipsos MORI. That research focused on deliberative research, which is really about having a structured conversation with consumers rather than trying to measure numbers. It is also underpinned by the ongoing work that we do with the company through a consumer measures and satisfaction working group. A key outcome of that work is that we are moving away from the more traditional output measures that we have had for the company, which are based on level of service — water pressure, supply interruption and flooding risk — towards measures that are based on consumer experience and satisfaction, such as unwanted contacts, first-point-of-contact (FPOC) resolution and net promoter score.

We have continued to set targets for level of service and the delivery of outputs, such as upgrades of treatment works and replacement of water mains. However, the new measures that we are promoting through this price control are intended to drive continual, incremental improvements in customer service, and they are based on actionable data from Northern Ireland Water's day-to-day interaction with its consumers rather than on large consumer surveys.

The final point that I want to make on the consumer perspective, reiterating what Tanya said, is that our work on vulnerable consumers is a key aspect of our ongoing consumer protection programme. We will begin to develop relevant targets for Northern Ireland Water in that respect as the work comes to a conclusion.

Our next slide is a profile of operational expenditure. It goes back to 2007 and forward into PC21. It can be used to emphasise a number of points. The first is the reduction in Northern Ireland Water's operational expenditure since the first price control in 2010. The company has continued to deliver improved efficiency over that period. It has closed a large part of the gap relative to comparative companies in GB. In PC21, we expect the company to continue to close the efficiency gap, which we estimate to be 8% of costs relative to upper quartile companies in GB, and to deliver ongoing efficiency improvement as well. That is equivalent to a 2.1% improvement per annum. It will deliver around £73 million of savings relative to the company's plan.

Next, I want to touch on capital investment and efficiency. Again, we have challenged the company on efficiency of delivery. We have concluded that it can deliver the planned investment for £1.68 billion, which is 12% lower than the company proposed. Before unpacking some of those numbers a little more, it is worth drawing your attention to the fact that around 40% of this investment — £680 million over six years — is described as capital maintenance. Northern Ireland Water runs and operates a huge asset base, and that is simply the money required to keep its assets ticking over and maintain the existing levels of service.

Next, I want to look at how we are trying to improve things. A key part of the price control is the social and environmental guidance that we receive from the Department. It sets the context in which we work, and I want to pick up on a couple of quotations from it that are relevant to the issue of development. The first is that it recognises that Northern Ireland Water has been:

"unable to invest adequately for the future sustainability of water and sewerage services".

It continues:

"Continued underinvestment would fail to meet the needs of citizens, the economy and society as a whole."

It is emphasising that this is not just about drainage; it has a real-life impact on the economy.

It also asks that Northern Ireland Water:

"formulate a deliverable investment plan which meets established needs and is affordable from a tariff perspective."

Essentially, the plan has been developed with a view to not increasing prices.

Northern Ireland Water has put forward a plan that begins to address development constraints by improving the capacity of sewerage and waste water treatment. While that is the main reason for the stepped increase in investment that you see in the plan, there is also increased investment in water treatment works to secure and improve water quality, and in water trunk mains, which improve the resilience of water supplies. That is particularly the case in rural areas, and it came in response to issues that arose during the industrial action back in 2015.

When looking at a stepped increase in investment, we also considered the deliverability of the plan. The first part of that is securing the necessary funding. The second is the pace at which it could be delivered. Time will be required to complete some of the investigations and designs and to procure and deliver the works. We have challenged the rate of increased investment in our draft determination, particularly the stepped increase in the first year, and there will be further discussions with the company on that. The point that I emphasise is that the ability to deliver is conditional on having confidence in the budget. The company needs to commit resources to develop its plan into a detailed procurement, and the supply chain needs confidence that work will go ahead so that it can gear up and deliver it efficiently. I reiterate Tanya's point that we think that medium-term budgets are an essential part of the package, rather than the year-on-year budgeting that the company faces currently. It is difficult to deliver a major capital programme within that constraint.

I also want to say a little about development constraints, which are a key driver for the budget. You will understand that the lack of capacity in networks causes unsatisfactory overflows and leaves us with treatment works that do not comply with the statutory consents that the Environment Agency issues. It impacts on the planned development of housing and industry, which underpin the well-being of the economy and, ultimately, society. Northern Ireland Water's plans in PC21 will only begin to address the current development constraints, and further investment will be required in future price controls. Indeed, the need to plan, procure and deliver some fairly substantial pieces of investment means that some of this will not occur until towards the end of the six-year period. That will present a wider challenge to us all in how economic development can be supported while that necessary investment is delivered.

The final thing that I want to note on capital investment is that the figure that we quoted — the £1.68 billion — is based on 2018-19 prices. At other times, colleagues will speak to you about prices including inflation, particularly when talking about the need for public expenditure capital DEL. The equivalent figure in public expenditure capital DEL is around £1.95 billion. That is the impact of inflation.

The next slide is on revenue and bills. One of the key things that we have seen in the economy in recent years is lower levels of interest. We are able to reflect that in our decisions on price controls and the cost of capital that is necessary to finance the investment. The rate of 1.7% that we propose is probably the lowest proposed by regulators to date. The advantage of that is that it allows us to increase investment without placing an increasing pressure on prices. However, we also need to recognise that increased investment, which is expected to continue over this and, probably, the next price-control period at least, increases the amount that we are borrowing and financing. That, of course, starts to put an upward pressure on prices. In the round, we concluded that, in this price-control period, the right thing to do is to maintain prices in real terms. That means that they will increase by the retail price index (RPI) over the period of the price control. We have done that to ensure that today's consumers pay a fair price for the service that they receive and that we control the increase in debt and charges for future consumers. Essentially, we are levelling out tariffs over the longer term.

In technical terms, we talk about a weighted average charge increase of zero and price limits of zero. In practical terms, that results in reductions in prices for some categories of consumers and increases

for others, depending on past movements on prices and changes in the volume of water consumed. We have given you an indication of the movements for different categories of consumers.

Finally, I will recap the key outputs and benefits of PC21. Investment in the capacity of sewerage and waste water treatment to deliver for the environment and address development constraints will require a commitment to increase capital investment. Lower costs of financing will mitigate the impact that this will have on bills for non-domestic customers. We propose zero price limits in real terms to protect the interests of consumers into the future. We continue to challenge Northern Ireland Water on cost efficiency, but it is worth reiterating the success of the company in closing the efficiency gap over time. While we continue to use historical outputs, PC21 includes a new direction on consumer measures, which should underpin continuous incremental improvement in service.

With that, I hand back to Tanya.

Ms Hedley: I hope that you found that short presentation of what is a substantial document — I do not know whether you have seen how much work has gone into it — helpful. We have not provided any extra money in relation to Brexit, although we have sought assurances from Northern Ireland Water, which it has provided to us, other regulators and the Department, that the risks associated with that are managed.

We also have not considered whether there are any additional costs because of the COVID epidemic. The submission for the business case was pre-COVID, and further consideration may need to be given as that works its way through Northern Ireland Water's processes. The main message that I really want to land with you is that it is important that Northern Ireland Water is funded to deliver this essential service for consumers. We ask you to give consideration to ensuring that there will be security of funding.

The Chairperson (Miss McIlveen): Thank you for that presentation. Two of the questions that I was going to ask were about Brexit and COVID, and you have addressed those. I am mindful that all members have indicated that they want to ask questions, so I will try to be brief.

One of the main issues is deliverability, which you highlighted particularly well. Obviously, that is in relation to securing funding and the pace of delivery. You mentioned the discussions that you had with the company. What discussions have you had directly with the Department of Finance and the Minister for Infrastructure?

Ms Hedley: I have not met the Minister for Infrastructure. As you may be aware, Jenny Pyper's period as our CEO ends in a week's time, and John French will take up the role on 2 November. Otherwise, our CEO would have been present for the presentation. We have very good governance structures. In terms of how we engage with key stakeholders, they are world leading. An output group meets with the Drinking Water Inspectorate, the Environment Agency, the Consumer Council and the Department to talk about what we need and what needs to be delivered. Therefore, we are all very aware of what is important to the different groups, and we come together with an understanding of what is required from Northern Ireland Water in order to ensure that it meets all its legal obligations. The Department is in the room for those discussions and is very aware of everybody's position as we go forward.

We worked closely with it on that throughout all the price control periods. That stakeholder engagement structure was put in place early on, and it has worked very well for us.

The Chairperson (Miss McIlveen): The specific challenge is deliverability, and that is predicated on funding being available. You talked about having a medium-term budget and the three-year capital budget, which would be incredibly helpful for the company. That lies with the Department of Finance specifically and with the Executive collectively. I am interested in whether you have had any specific discussions with Finance about budgets.

Ms Hedley: We specifically engage on budgets through every price control period. I talk to the permanent secretary and deputies about that because it is such a key issue for us. We are very much aware that the Living with Water programme comes from that money. We are part of the Living with Water programme board, and we are engaged there as well. I am on the Belfast City Council sustainability and resilience board, because it has an interest in its water infrastructure in Belfast and in the particular constraints that are there.

I am emphasising it here, and we will continue to engage with anyone who we can get to listen about the importance of funding this. Water is a foodstuff. I know that it falls from the skies, but when it comes from a tap, the quality has to be of that standard. Northern Ireland Water is the biggest user of electricity in Northern Ireland. It has bills to pay, and on top of that, we want it to develop further infrastructure to allow for further economic development in Northern Ireland. It has to be given the money to build what is required.

The Chairperson (Miss McIlveen): Despite those challenges, you mentioned that the £1.68 billion was 12% lower than the company proposed.

Mr Mills: Yes. I can touch on how we do that. That comes partly from challenging and benchmarking against GB companies. I mentioned the £680 million that is spent on capital maintenance. We derive that challenge through benchmarking. We also use a reporter, who looks at the company's plan and who has challenged some of the costings that it has put forward, particularly the additions for risk in the plan.

The final thing that we do is look at the plan in detail, building on the information that we have about the historical costs of the company and then challenging the company against those historical costs. Some areas where we challenge against historical costs are simpler than others. Where we know, for example, the rate that the company spent on replacing water mains, we would expect that to carry forward into the future. It becomes more complex whenever we look at things such as sewage treatment works, which are really bottom-up estimates.

The Chairperson (Miss McIlveen): I am not going to get you involved in a political argument, but have you considered various or different models of funding for Northern Ireland Water that may assist it throughout this?

Ms Hedley: That is not our role. Our role is very clear and is identified in statute. Our position is that we want to see security of funding. The model is a matter for government policy.

The Chairperson (Miss McIlveen): The comment that you made about the constraints on development is quite worrying, as we have over 100 towns and villages where there are constraints. As we move through COVID-19 and, hopefully, out of it, regeneration will be vital for the economy. To hear that it could be towards the end of the six-year period before some of that development will be addressed, which could be moving into the next price control period, is of concern.

Mr Mills: I agree. That is why we are highlighting it. As the quotations that I gave from the social and environmental guidance state, there has been an issue with constrained funding for a number of years. We are really trying to play catch-up now if the budget is available. At even a practical level, it means that those development constraints will not be relieved until towards the end of the second half of the price control period. We also made the point that this price control will not relieve all development constraints. That really was the purpose of my comment: we all have an interest in working out what we do in the meantime while those constraints exist. They will not be removed for some time.

The Chairperson (Miss McIlveen): My final question is about improved efficiency, which you discuss on your final slide, where you say that:

"By end of price control, NW will operate at comparable levels of efficiency to similar companies in England and Wales today".

How much behind those companies are we talking? Are the efficiency issues considerable, or are they manageable?

Mr Mills: I am sorry about the complexity that I throw into this sometimes, but there is an 8% gap from the upper quartile companies in GB. NI Water is behind but not by much. In my final comments, I said that we need to recognise the significant efficiency improvements that have been made by the company since 2010.

The Chairperson (Miss McIlveen): OK, thank you.

Mr Boylan: Thank you, Chair, and thank you for the presentation. Chair, after the training session this morning I am worried that other members will try to ask questions, so I will try to be concise. How has COVID affected the Utility Regulator's office and its operations, particularly this year?

Ms Hedley: We are quite lucky. Our work involves a lot of sitting in front of spreadsheets and writing documents, which are very easily managed from a home-working environment. The majority of staff are working out of the office and will continue to work out of the office.

In some areas, productivity has increased because people are sitting and there is just them, a computer and work and they are not disturbed by people chit-chatting around them. The area that we have more difficulty with is this sort of engagement with stakeholders, because a key aspect of our job is talking to our stakeholders and ensuring that we understand what their expectations and needs from the regulated companies are. I have spent a lot of time on Zoom, and I am getting much more proficient at it, although there is a bit of a benevolent dictatorship in some of the meetings. We are continuing to be effective and to provide the protections that consumers expect and need from us.

Mr Boylan: Where are we with your annual budget? Has it changed over the years? Can you comment on it?

Ms Hedley: There were increases because of a huge step change in work relating to the I-SEM project, which has now been incorporated into the wholesale market. It was a requirement of European legislation that we make significant changes, so there was no option; that programme had to go ahead. It was a very significant piece of work, because we were redesigning the entire electricity market in order to meet European compliance requirements. It is now up and going and delivering for consumers.

Mr Boylan: OK. I have just two more quick questions, Chair. In your annual report and accounts, on responsibilities, it says that:

"In doing so the Utility Regulator shall have regard to (among other things) the interests of ... individuals ... in rural areas."

John, you used terminology like "new direction" about PC21. I know that in border areas in particular but, generally, in rural areas, there are a number of places that do not even have a water main coming up some of the roads. They may connect half a mile across a field or whatever. I appreciate what you are agreeing, but has that situation been any part of your conversation? You are saying that we need to look after rural people, but has there been a new direction on that in this new programme, or would you like that to happen?

Mr Mills: The one example that I highlighted is the work that is being done on some of the water mains. You will know from the industrial action that happened in 2015 that a number of small water treatment works went out of service in the west, for example. Given that they were relatively isolated and the company could not resupply into those areas, they lost water for a number of days. One of the things that we find when we talk to people about the water service is that everyone says that it is fine, provided that it works, and if it does not work, they very quickly notice it.

The price control proposes a series of trunk mains that basically start at Ballinrees in Coleraine, head towards Carmoney at Derry and Caugh Hill in Dungiven with the objective of reinforcing supplies down through to Strabane and Omagh in order to address that problem in those isolated works. Another aspect of it that Northern Ireland Water picked up, again through some of the high temperature events when the water supply became difficult in the west, is the ability to get water to some of the smaller, isolated service reservoirs. Again, there is a programme of work to increase the size of the mains that meet those reservoirs. It is always nice to work in a perfect organisation, but one of the things that Northern Ireland Water has been doing over time is developing its understanding of its asset management and bringing those assets to the fore so that they are now being funded.

Mr Boylan: Right. I want you to keep in mind the open countryside in particular and the smaller towns.

Finally, the Chair mentioned the number of areas that are lacking capacity. I will ask this question, and you may be able to respond to it. A number of council area plans are not completed yet —

Mr Mills: Yes.

Mr Boylan: — and they will designate the number of units that we will need over the next 10 years. Where is that in the round of all the questions that are being asked in this PC? The PC for 2021-27, which covers the next six years, has identified capacity and electricity capacity, but if the council area plans have not been developed yet, so how does that match up? Would you like to respond to that?

Mr Mills: Yes. When the company put forward its analysis of its waste water treatment capacity, and this really relates to the treatment works as a driver here, it worked with the councils on their development plans as they stand. Obviously, things may change in the future, but I think that there is enough information there to know which areas are overloaded, and those are probably the areas that we are dealing with now. As those works are being addressed, there is a decision to be made about how much capacity to build in at that time. However, I do not think that we are at a point yet where I need to be too concerned about the uncertainty; I am more concerned about the funding being available.

Mr Boylan: Thank you.

Mr Hilditch: You already answered two or three of my questions; you always know that there has been a good presentation when that happens. I still have a couple of questions, though.

I understand that the chief executive wrote out to companies and said that they were not to take up the COVID furlough assistance. Is that correct?

Ms Hedley: No, that is not correct. We wrote out to companies about it and asked what their intentions were. That is obviously because the price control allows for the amount of money that consumers pay. So, if consumers are paying for a member of staff, it would be a concern for the Government to also pay for that member of staff, so we wanted visibility of what was actually happening and what their plans were. I am not aware at this point of any company in the networks that has taken up the furlough scheme.

Mr Hilditch: Thanks for that clarification.

You mentioned in the slides that sometimes you cannot have competition in certain areas. Can you elaborate on that?

Ms Hedley: We do not have two water companies; we have one, which is Northern Ireland Water, so the only place that you can get your water supply is through Northern Ireland Water.

Mr Hilditch: Is there anything further down the ladder?

Ms Hedley: Apart from the network companies, we also do price controls on a few suppliers, and that is where the competition in some areas has not progressed to the stage where we are comfortable removing the price controls. Part of the Power NI charges are still regulated, and there are a couple of gas companies that still have regulated prices.

Mr Hilditch: Thanks for that.

Where the constraints on development are concerned, there is no doubt that there are challenging times out there. However, I wanted to ask whether NI Water has taken on board instances where there would potentially be reductions; that is, housing being removed and factories closing down and whatnot and going into a system. I do not think that I got a clear answer from anyone so far, so are you aware of scrutinising those things and of whether those reductions are taken into account?

Mr Mills: I have not seen anything that takes into account the reductions in such areas, so it is an interesting point.

Mr Hilditch: There are areas that have been devastated from an industrial point of view, and large factories are all gone. Are we working on historical data, or has all that been taken into account?

Mr Mills: The company will work on the industrial component of it, the current trade effluent data and the consents that are in place. If an industry has left, it will have left. The difficulty is trying to estimate based on what might leave in the future. In my experience, I have not seen that done.

Mr Hilditch: It was raised with me through local government after there were a lot of closures in the mid- and east Antrim area that were affected by the constraints, to be honest. Those people were just querying that aspect of the figures.

Ms Anderson: Thank you, Tanya and John, for the presentation. You recently published a consultation on the draft determination of NI Water's business plan. How does that draft determination compare with the funding that was identified by NI Water?

Ms Hedley: As John indicated, we assessed its business plan, and what we presented to you is that determination and what, we believe, is appropriate funding.

Ms Anderson: What was the differential between what was in its funding model and yours?

Mr Mills: You will forgive me if I cannot remember all the figures, but on the capital side, it was asking for about £1.9 billion and our determination is £1.68 billion. To clarify, those figures were based on 2018-19 prices, in case others quote different numbers to you. I am sorry that I do not have the operational cost numbers at my fingertips, but the overall reduction that we would achieve would be £73 million in total across six years compared with the company's plan.

Ms Anderson: Has that been discussed with NI Water? What is its response to your draft determination?

Mr Mills: We sent our draft determination to it on 30 September. The consultation will close on 16 December. I expect that we will have discussions with the company before then, but we have not had anything back from it yet. When we get to the point of the consultation response coming back, we will then work on our final determination, which we will publish on 16 March.

Ms Anderson: OK; those are good time frames to know. I am quite concerned about the waste water treatment plant and the lack of capacity in the north-west and in the Foyle constituency, in particular, an area in Derry called Skeoge, off Buncrana Road, where there is potential for 600 much-needed homes to be built but there is a lack of capacity. I know that you are regulating and you may have a different role, but the difference between what NI Water is looking for and your determination would impact on developments, for instance, on the Skeoge Road, Buncrana Road or anywhere with a lack of waste water treatment plants.

Mr Mills: I know that there are proposals in the plan for that development because there will be a water main to feed it. That is one of the issues with capacity, and those issues are being addressed, including waste water treatment works.

Ms Anderson: I have just one more question. When we were going through the documentation, you mentioned a Brexit coordination team, and you said that you asked NI Water about risk management. When NI Water was in front of the Committee it said that, in the event of a crash-out Brexit, the cost of the materials that it has to purchase to purify the water — they make sure that we have clean drinking water — would increase. Has it given you an estimate of that cost?

Ms Hedley: We have not received any detailed costings from Northern Ireland Water for either additional costs for Brexit or additional costs that are associated with COVID.

Ms Anderson: Are you pursuing that information?

Ms Hedley: We expect it to come back to us when it has detailed information. At this point, there is an expectation that some costs will increase, but they might not be significant enough to make reopening our determination a worthwhile consideration. We will not know until we see those costs.

Ms Anderson: The Committee would like to hear about that, because when NI Water presented to us, it gave the impression that there could be a significant increase, particularly in the chemicals that are required for the purification of the water. Any information that you receive, obviously, we would like to be furnished with.

Lastly, I have a Brexit question on the all-Ireland electricity market. Are there any concerns about the all-Ireland electricity market, regardless of what happens at the end of the year?

Ms Hedley: Our understanding is that there is no intention to make any changes to the wholesale market. It is added value for consumers in Northern Ireland, and it is added value for consumers in Southern Ireland. The existence of the wholesale market keeps prices as cheap as they can be for consumers on the whole island of Ireland, and we are strongly of the position —.

Ms Anderson: Is that the case even if there is a crash-out Brexit and something goes terribly wrong? It looks like we are heading in that direction.

Ms Hedley: Our understanding is that the market will continue to function. This is an area we have looked at very closely, and we have worked very closely with our colleagues in Dublin at the Commission for Regulation of Utilities (CRU). We intend to continue to do that, and I have no direction otherwise.

Ms Anderson: It is good to get that reassurance.

Ms Hedley: We do not expect any other direction, because very positive statements have been made in all areas, that is, by politicians in London and Dublin, about continuing with the wholesale market because of its value.

Ms Anderson: It is good to get that reassurance.

Mrs D Kelly: Can you hear me?

The Chairperson (Miss McIlveen): Yes, we can. Thank you.

Mrs D Kelly: Thanks very much for the presentation. We are all acutely aware of the infrastructure crisis in water and roads projects. You may be aware that the Department for Infrastructure is having a review of planning policy. I am finding that costs have escalated substantially for people who want to bring electricity into individual homes. Does the regulator examine those costs? If so, what are your findings?

Is it the Department or local authorities that makes the enforcement policies for developers who meet the minimum terms for sewerage and water connections? I have a few issues that are probably repeated across other constituencies about people who have bought a house in good faith but the developer has not subsequently lived up to the full requirements of the planning conditions. Enforcement seems to fall between two stools: it is not done by NI Water; and the local authority powers to compel the developer seem to be insufficient to enforce the developer to comply.

Ms Hedley: I will touch on the connection costs and ask John to talk a little bit about the development issue, which we are aware of.

We regulate NI Water connection costs; it is part of its price control process. NI Water has a statement of charges that identifies the unit costs for the different activities that might be required for any connection. However, each connection is specific to the individual, depending on the design. It obviously uses the least-cost, most-technically acceptable design, but that will be specific to the connection that is requested. We are the dispute body for this matter. If you feel that NI Water has overcharged you, you can raise it as a dispute with us and we will investigate the costs that you have been charged. Costs tend to be higher for rural connections because of the amount of additional equipment that is required to put the connection in place. I live in a field, and I am very aware that the cost for my connection is higher than that for someone living in a housing development.

Mrs D Kelly: Chair, I will come back briefly. The Department has a power for way leaves. For example, you may have a good neighbour who allows you to connect to what they paid for when they were getting their house connected, but another neighbour may not give the person who is building a new property the authority to link into the supply. Do you have any dispute resolution powers in those sorts of fall-outs? Is there a way that any charges that the first applicant incurs can be recompensed through greater cooperation with the second applicant, if you understand what I am saying?

Ms Hedley: The compulsory way leave powers sit with the Department for the Economy. If NIE has a difficulty and cannot achieve a way leave to build the least-cost, most technically acceptable connection, it goes to the Department. A number of compulsory way leaves exist in Northern Ireland, and that is a process that NI Water can go through. Obviously, it has an ongoing relationship with the

landowner, so it prefers not to use compulsory processes because it has to get access to the equipment in order to maintain it at a later stage. The Utility Regulator has no role in that process, and we have not been given any role by government.

I will ask John to talk about the issues relating to sewerage connections for housing estates.

Mr Mills: I assume that we are talking about the adoption of sewers by Northern Ireland Water. Ultimately, it is for the developer to satisfy Northern Ireland Water that it has complied with the requirements for the sewers for adoption. Ultimately, it is for the individuals who have the relationship with the developer to take it up with the developer.

We have some limited powers in relation to connections to sewers when it comes to hearing appeals and disputes. However, I can remember only two examples in the last 10 years where a dispute has come to us. One was about the cost of a connection and the other was about the adoption of sewers. It is not something that we have particular experience of, nor do we have a role in it as an enforcement body.

Mrs D Kelly: Do you see a gap in any of the legislation or in the powers that could be afforded to you to assist in such disputes or conflicts?

Mr Mills: I would always be cautious about getting involved in disputes between an individual and a developer that we do not regulate.

Ms Hedley: We do not have powers to do that. We can do only what the legislation allows us to do. Were someone to raise a dispute that was outside our powers, we would have to say, "Unfortunately, not". However, the Consumer Council for Northern Ireland engages on those matters.

Mr Beggs: Thank you for your presentation. My first query relates to your slides on bills and revenues in which you indicate that you are expecting a reduction of £195 for typical large metered businesses and of £22 for smaller metered businesses. However, there will be an increase of £5 in the notional household cost. What are the drivers for that? Are companies with meters being more efficient and environmentally friendly? What are the implications for the public purse?

Mr Mills: In order to determine the price control, we first work out the revenue required, and then we look at the consumer base available to pay it. What you see in those figures is, first, a slight increase in water consumption in domestic properties. That is possibly related to COVID-19 and people working at home more. That is part of the reason for the increase in the domestic notional bill, which is the part of the revenue that flows into subsidy and which is paid for by the Department.

What you also see is a bill increase for small, unmetered non-domestic premises, which partly relates to the fact that Northern Ireland Water has not increased bills for those consumers for some years. Therefore, effectively, they are lagging behind in the amount of money that they have paid. We are fixing something that happened in the past.

What you see with the non-domestic metered bills are the people benefiting from the reallocation of revenue. That is one of the issues that we have highlighted to other people we have talked to, and we are interested in getting feedback on that determination. Ultimately, when you get to the point where it affects people, this is a process and a mechanism that gets to a rational answer, but it has a real-life impact on bills, so we are interested in feedback on the kinds of issues that you raise.

Mr Beggs: Are you saying that the notional cost to both parties is more realistic in this price review than what was there previously?

Mr Mills: No, I would not say that. Both are right. However, we are reflecting changing circumstances of movements and water demand.

Mr Beggs: One of the points that you made earlier was that the lack of three-year capital budgeting has had an impact on associated costs and the ability to deliver projects. Can you put a figure on the cost implication to Northern Ireland Water of not having a three-year budget?

Mr Mills: We have not put a figure on it, and I do not think that we could, particularly. It simply makes it harder to deliver when you are trying to plan a project. Many projects in Northern Ireland Water are,

perhaps, of the order of less than a million pounds and can be accommodated in a one-year budget. However, larger projects that cost tens of millions of pounds, which some of these larger treatment works will be, are planned over a number of years. You look for a commitment at the start of a project so that you know you can continue it. You also look at the commitment with the supply chain and it having confidence that the work will be done. We are asking Northern Ireland Water to increase its rate of spend significantly over this period.

If I remember the figures correctly, we are looking at perhaps a 2.5% increase per annum in total construction in Northern Ireland as a result of this over that period. The supply chain has to have confidence that it can gear up and provide people with the skills necessary to do that work. If we do not provide that confidence over a three-year period, there will be a cost. However, as I say, we have not attempted to estimate what that cost may be.

Mr Beggs: Can you allude to the scale of the difficulty of not having three-year budgets?

Mr Mills: Not without considering it.

Mr Beggs: It might be worthwhile for us all to be aware of the subsequent implications.

My final point reflects a little bit of what you said about increasing capital requirements and giving confidence to companies that may have to deliver this new investment. What value does your overall price mechanism have if there is not the commitment by the Executive to provide the money that is built into it?

Ms Hedley: The value that we add through regulation is ensuring that companies provide the services and develop a focus on customer service back to the customer best practice project that we are working on. NI Water has reduced its costs and become more efficient, and its quality of service to customers has dramatically improved from the first price control. We can clearly evidence the value of regulation for Northern Ireland Water. If Northern Ireland Water is not fully funded, the constraints will not be removed, but it will still continue to improve on its efficiencies for the work that it is doing. We will continue to drive it to look at innovative ways to do things and improve its consumer service. It just means that you are left with an impact on economic growth in Northern Ireland.

Mr Beggs: If there is no commitment to provide the funding needed to follow your plan, does it not make nonsense of much of your plan, the work that you have put in, and the work that Northern Ireland Water will have put in as well? It was mentioned earlier that hundreds of areas will continue to have insufficient sewerage capacity to allow development to occur.

Ms Hedley: No, because there is clear information there about the impact of underfunding. We can identify what is and is not being done and can assure the Department and the Committee that Northern Ireland Water is being efficient with the moneys that it has and is delivering the best flexibility within the funding envelope in line with what we would expect any best-practice-performing company to do. Just because development constraints are not being removed does not mean that Northern Ireland Water is not still providing water and sewerage services to its consumers. We expect it to continue to seek to improve on that process, going back to the funding efficiency gap between Northern Ireland Water and GB companies. We will continue to push it to improve its services.

Mr Beggs: I have a final brief question on electricity connections. There was criticism of the costs that NIE puts down on some connections, particularly renewable-energy connection costs. How is that monopoly managed so that realistic costs are put forward?

Ms Hedley: NIE Networks — the name changed recently — identifies its cost to us as part of its price-control process in the same way that Northern Ireland Water does, and it identifies what it hopes to do for both capital works and operational expenditure. The cost of replacing poles or transformers or any of those connections is the same as the costs that it would apply to somebody asking for a new connection. We scrutinise its costs, and it puts those costs as a budget into its charging statement. As I said earlier, if you feel that you have not been charged the appropriate amount, you can raise a dispute with us and we will investigate it.

Mr Beggs: Is there full transparency of how costs are put together so that it is not a subsidiary company of NIE and that some of the costs are hidden?

Ms Hedley: It is full transparency. We know its labour and overhead costs and the costs to purchase and replace equipment or to build new connections because it also builds new capital works to increase capacity as well as just building connections. The same staff do both.

Mr K Buchanan: Thank you, Tanya and John. I want to follow on briefly from Roy's point. What is the 1.7% increase in an average bill based on? Is that actual water consumption or is it 1.7% increase on a bill in general?

Mr Mills: We presented some figures on the pound note sign value of the bills in that slide. The 1.7% figure is the return on capital, which is essentially the cost of debt and equity of financing not the increase in bills. We start from the point of view that our price limits, which are a technical issue that we deal with, are zero. We have highlighted in the table that, within that zero overall increase in bills, some people pay more and some less. What drives it is the movement and the water consumption between various consumer groups. I also mentioned the fact that price increases had not been applied to some consumers in the past by Northern Ireland Water. That small group of non-domestic unmetered consumers is seeing an increase in bills.

Mr K Buchanan: Ms Kelly and Mr Beggs touched on my second point regarding NIE Networks. I am not specifically singling it out, but there is a narrative. In rural areas, when an NIE supply comes into a building, the cost can be astronomical. Are you confident that there is enough NIE competition? Some of the costs are too expensive — I will not say "inflated". Are you confident that there is enough competition in that sector to deliver the network to the consumer?

Ms Hedley: The NIE policy for connections is semi-shallow: you pay for the new assets that are required because of your new need. A couple of years ago, we introduced contestability for all connections in Northern Ireland because we were aware of the interest in that and the concern that there was no competition. We did that in such a way that the live companies active in the contextual market in GB could move here and build connections without having to make substantial changes. So, it was attractive for them.

A large number of independent connection providers (ICPs) have registered in Northern Ireland, and some are active in the market. Anyone can get a quote from an ICP for their connection. What people are finding is that the costs are similar; they are not necessarily saving substantial amounts of money. In fact, I believe that some people are willing to pay more to the independent connection provider to get the connection faster. It depends what personally is of interest to you, and that is good. That choice is now available, and we welcome the fact that we have contestability.

NIE worked positively with us to bring that forward as quickly as it could. It did not try to be protective in any area of work or prevent us from introducing contestability. The building of the network infrastructure was based on original need. Under current charging policy, you are required to pay for the assets that are needed if you want a connection but the infrastructure is not in your area. If government wishes that to change, it is within its gift to do so. It is something that DFE can look at as part of its energy strategy. That is the current position.

Ms Kimmins: Thank you both for your presentation. A lot of the issues have been covered, so I have only a few small points. Your report mentions enforcement, and you said that there has been a donation of almost £500,000 to local charities. What does enforcement activity entail?

Ms Hedley: We have a clear, documented process. When we consider that somebody might be in breach of licence, we inform them and start a process, but we allow them to come to an early resolution if they are particularly helpful and put their hands up and say that they will address the issue. We then ask them to make a charitable donation. They are not to get publicity for that, because we have found a failing, they have admitted to it, and the donation is a redress. It is not something for which they should get positive publicity. The total in Northern Ireland, so far, is £845,000. That has come from electricity suppliers who have not carried out all the activities that we expect in licensing and for the protection for consumers. Such issues have arisen when people have tried to switch, but their connection does not work effectively, for instance, or when some of the marketing processes have not been in line with what we expect in licence compliance. We carried out an enforcement on one network company because it had allocated moneys inappropriately. That was our first enforcement. We do not necessarily want to enforce licences; that is not our job. We want regulated companies to comply with our licences and to deliver value for consumers. Enforcement is a last stage, but it is something that we have in our toolbox, and we are not afraid to use it.

Ms Kimmins: That is great. You said that supporting renewables was one of the areas that would influence your work over your five-year strategy. What can the Utility Regulator do to help us to achieve a net-zero future? How do you see that panning out?

Ms Hedley: Historically, we have been aware of the ongoing process of connecting renewables. I have been working with the regulator for nearly 13 years, and, before that, I worked for Northern Ireland Electricity for 19 years as an engineer connecting wind farms. One of the pieces of work that the regulator did, and which I was involved in when I started, was to look at connection policy and how we could ensure that we connected renewables in a way that meets the Government's target of 40%. A clustering policy for renewable generation is being developed. That means that a cluster will be built for the connection, rather than having wirescapes — lots of unnecessary lines.

We are engaging with the Department and are represented on all its thematic groups. We are also represented, at a strategic level, on the development of the Department for the Economy's energy strategy. As you will be aware, a lot of European legislation is aimed at promoting and facilitating renewables. We work to ensure that regulated companies have the appropriate licence conditions and comply with European legislation. We are also moving forward with meeting Government targets for a net-zero future. When we reviewed our corporate strategy a couple of years ago — I am trying to remember when it was; the years go by so quickly — we made it clear that we needed to work towards zero carbon emissions. However, I say "net zero" now, because it is not just about carbon; it is about all greenhouse gases. We see it as our role to ensure that we facilitate government policy.

Ms Kimmins: You mentioned EU legislation. There is a lot of uncertainty about it and how it will work with Brexit. There is no clear path as to how it will work out.

Ms Hedley: We have put in place all the network codes that we are required to up to this date. Those codes are still being finalised. Some are still under consultation and will be closing in a number of weeks. We will be fully compliant come —. We are fully compliant now, I am not suggesting that we are not. Those codes and changes are there to move towards net zero, and because they are still being put in, we will build on them in the activities that we expect.

We have been engaging with NIE and with the System Operator for Northern Ireland (SONI), who are proactively engaged with the Department in being "shovel ready" and carrying out "no regrets" actions to ensure that we are ready to go and that we are doing what is needed to get towards net zero.

We recently closed our consultation on the SONI price control and identified what we were doing in it and the requirements that we are placing on SONI to ensure that it will be in a position to continue towards net zero. One of the big things is open data: making information available to everybody who might be interested in engaging in this market and making it more accessible than it was in the past. Traditionally, electricity came from three or four power stations in Northern Ireland, and the transmissions system operator made sure that it went to homes and businesses. We did not have the level of renewable energy that we now have. We are now up to 48%, which is a testament to the good work that we, the Department for the Economy, and the regulated companies, have done in looking at our price-control process to ensure that they can deliver for consumers.

RP6 is the Northern Ireland Electricity price control, and within it we consider the growth of electric vehicles and heat pumps and what will be needed for renewable generation. We will put together a plan, as we did for Northern Ireland Water, we will consult on it, engage with the company and then make a final determination. The next big project, once we have finished PC21, will be RP7, because in the SONI price control we hope to do a final determination on it prior to the end of 2020. There is a huge amount of work going on. I could talk for a long time on this.

Ms Kimmins: Thank you very much.

Mr Muir: Thank you very much for your presentation. My question relates to the question that Ms Anderson asked about the impact of Brexit. I appreciate the definitive response that you gave on that, as it is a very important issue. Are you are confident that, no matter what the outcome of the Brexit negotiations, the impact will not be significant on businesses and consumers?

Ms Hedley: We are confident that we will still get water, that the sewerage system will still work, and that the electricity will still flow. However, we are not confident of the long-term impact on costs. I do not think that anyone could be confident on that.

The Chairperson (Miss McIlveen): Thank you. Does anyone have anything further that they would like to ask?

Thank you very much for your presentation and taking the time this morning to answer questions. No doubt, we will be in contact and we will speak again.

Ms Hedley: Thank you very much; we appreciate it. To go back to COVID-19, this is the first time that John and I have been in the same room since early March. It is nice to see him and that he is not just a hologram [*Laughter.*] It is nice to be in a room with people. Thank you very much. Stay safe.