5

Operating efficiently

New and exogenous costs in PC28, benchmarking Opex, setting efficiency targets, and delivering efficiency.





At a glance

What this chapter covers

This chapter explains how NI Water has developed its PC28 operating cost plan: starting from a transparent 2025/26 cost baseline, testing the need for new and exogenous cost pressures, assessing relative efficiency using established econometric benchmarking, and setting a stretching but deliverable efficiency challenge. The approach reflects the Utility Regulator's PC28 regulatory principles by ensuring that proposed expenditure is efficient, evidence-based and focused on the costs necessary to deliver essential water and wastewater services.

Our cost baseline and pressures

Our plan is built from a clear understanding of the cost of running NI Water and the pressures that will affect service delivery during PC28. We have established a robust operating cost baseline of £253.2m, excluding PPP costs, and identified only those additional cost pressures that are outside management control, necessary to meet statutory or environmental obligations, or needed to improve services and enable future efficiency.

Our efficiency position

The chapter demonstrates NI Water's strong operating cost performance. During PC21, NI Water has remained at or outperformed the PC21 Final Determination allowance in every year to date when the exceptional impact of power is excluded. Relative efficiency has also improved significantly: on a power-adjusted basis, the gap to upper quartile companies in England and Wales has reduced from 5.7% in 2018/19 to 1.8% in 2025/26.

Our PC28 efficiency challenge

Building on this performance, we propose a 1.6% operating cost efficiency challenge by the end of PC28, combining catch-up efficiency with frontier shift. Applying this challenge reduces operating costs by £4.6m by 2032/33 and ensures that the cost allowance sought in the Business Plan reflects both the efficient cost of delivering essential services and NI Water's continued commitment to value for money.

How we will deliver

The PACE transformation programme provides the delivery route for further efficiency, linking targeted investment to improved service performance, better environmental outcomes, enhanced customer experience and stronger organisational resilience.

Overall, this chapter provides a clear, evidence-led and deliverable operating cost plan for PC28. It demonstrates that NI Water has challenged its cost base, justified unavoidable pressures, benchmarked performance robustly, engaged openly with the Utility Regulator, and proposed a demanding efficiency package that protects customers while supporting the continued delivery of safe, reliable and sustainable services.

5 Introduction

This chapter explains how we have forecast the operating costs required during PC28 and tested whether they are efficient, justified and provide value for money. As the sole regulated provider of water and wastewater services in Northern Ireland (NI), we are committed to delivering high-quality services while maximising the benefit customers receive from every pound spent.

NI Water's performance and efficiency continue to compare favourably with leading water utilities in England and Wales, as illustrated in Figure 5.1.

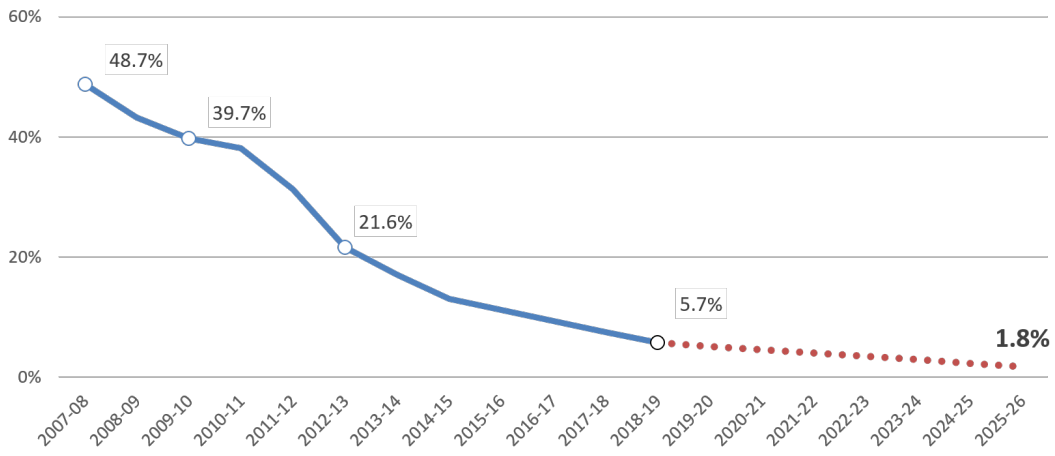


Figure 5.1 - NI Water's opex efficiency performance

Building on this track record, our PC28 projections incorporate further efficiencies while ensuring that operating expenditure remains necessary and proportionate to meeting our statutory obligations and service commitments.

The following sections explain the forecasting methodologies, assumptions and efficiency measures underpinning these projections. The chapter is structured as follows:

- Section 5.1 provides an analysis of our operating cost base;
- Section 5.2 assesses our performance during PC21;
- Sections 5.3 provides an overview of how we developed our PC28 operating cost projections;
- Section 5.4 explains how we derived our operating expenditure baseline for PC28;
- Section 5.5 details the new and exogenous costs which should supplement the baseline;
- Sections 5.6 and 5.7 assess our efficiency relative to our peers and sets out the efficiency savings we will deliver in PC28;
- Section 5.8 introduces our plan for delivering the efficiency challenge in PC28.

All costs are presented in 2025/26 prices unless stated otherwise.

5.1 What It Costs to Run NI Water

Operating costs (opex) are the recurring costs necessarily incurred in the daily delivery of our water and wastewater services. In the last full financial year (i.e. 2025/26) opex needed to deliver water and wastewater services totalled £279m. A breakdown is provided in Figure 5.2.

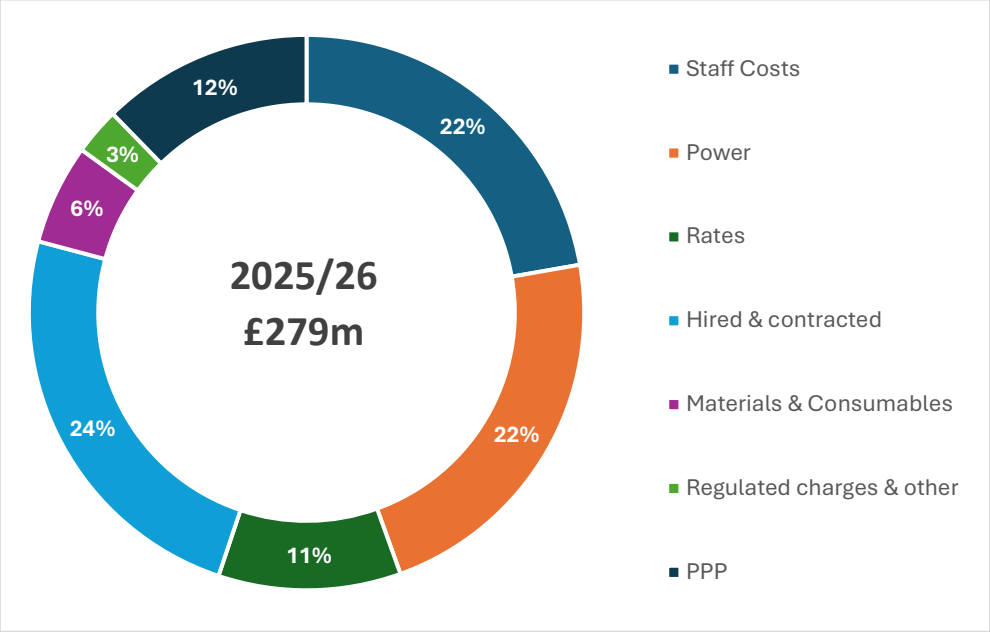


Figure 5.2 - Analysis of NI Water's 2025/26 operating costs

The cost of maintaining our workforce accounts for approximately a quarter of our total running costs. NI Water employs around 1,600 people who are responsible for delivering our day-to-day services. We are NI's largest electricity consumer, using approximately 300 GWh in 2025/26 at a cost of £62m, although power prices remain volatile. We operate two PPP contracts that deliver a significant element of our water and wastewater services, both of these contracts will expire towards the end of PC28. Payments to PPP providers represent approximately 12% of our total running costs. We also operate a partnering model for a range of services, including sewer unblocking, mains repair and customer billing, at an annual cost of £67m. Business rates account for 11% of our operating cost base, with approximately £30m paid to Land and Property Services in 2025/26.

Since its establishment in 2007, NI Water has undergone significant transformation, evolving from a government department into a modern, high-performing utility. This transformation has been driven by structured programmes of change focused on improving customer outcomes, reducing costs and building organisational capability. As a result, annual running costs are now more than £105m (2025/26 prices) lower than in 2009/10.

5.2 How We Performed During PC21

In the PC21 FD, the Utility Regulator set NI Water a challenging operating cost efficiency target, requiring a 9.5% reduction from the 2018/19 base year by the end of PC21. This equated to a £15.4m reduction in annual running costs, expressed in 2018/19 prices. Figure 5.3 compares NI Water's actual and forecast operating cost performance against the PC21 FD allowances.

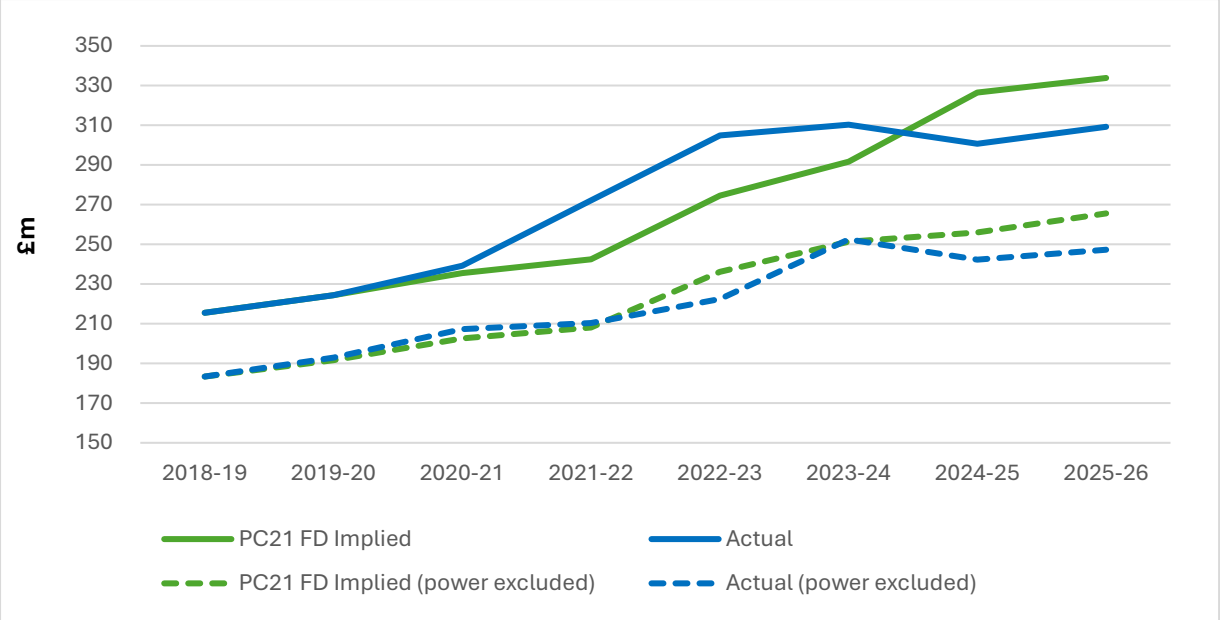


Figure 5.3 - operating cost performance in PC21

Between 2018/19 and 2020/21, NI Water's total operating expenditure remained at or below the allowances set in the PC21 Final Determination. From 2021 onwards however, global energy markets experienced exceptional volatility, driven by wider geopolitical uncertainty and followed by a sharp increase in international energy prices after Russia's invasion of Ukraine in February 2022.

As NI's largest electricity consumer, and without the same ability to hedge against increasing wholesale energy prices as companies in England and Wales, NI Water was particularly exposed to these market movements. This resulted in operating expenditure exceeding PC21 FD forecasts between 2021/22 and 2023/24, with the variance driven primarily by exceptional power costs, as shown in Figure 5.3. Throughout this period, NI Water continued to take active steps to mitigate cost pressures through procurement, demand management, operational efficiencies and energy-saving initiatives.

The energy price crisis was outside NI Water's control, a position recognised by the Utility Regulator in its Mid-Term Review Final Determination (MTR FD). Additional allowances were provided for years 4 to 6 of PC21 to reflect the material cost pressures arising from higher energy prices. Excluding power, NI Water has remained at or outperformed the PC21 FD allowance in every year to date.

5.3 Deriving Efficient Operating Cost Projections for PC28

We have developed our PC28 operating cost projections using the established approach applied in previous price controls. The approach comprises four steps, summarised below:

- **Establish the operating cost baseline** – determine a representative level of operating expenditure to roll forward into PC28.
- **Add justified cost pressures** – identify and assess additional costs arising during PC28, including new requirements and exogenous pressures not reflected in the baseline.
- **Assess comparative efficiency** – use econometric models to benchmark NI Water's operating costs against water and wastewater companies in England and Wales and assess the scope for further efficiency improvements.

- **Set efficiency targets** – determine appropriate catch-up and frontier-shift challenges, reflecting both the scope to close any remaining efficiency gap and the potential for continued productivity improvements across the sector.

Sections 5.4 and 5.5 explain how we established the baseline and assessed additional cost requirements. Section 5.6 presents our comparative efficiency assessment, which informs the catch-up challenge. Section 5.7 explains how catch-up and frontier-shift targets have been determined and applied to derive our proposed operating expenditure after efficiency.

5.4 Operating Cost Baseline

A significant proportion of NI Water's operating expenditure recurs annually, making recent actual expenditure a reasonable starting point for forecasting future costs. We consider 2025/26, the most recently completed financial year, to be representative of a typical year and therefore provides a suitable basis from which to derive an operating cost baseline.

Beginning with 2025/26 outturn costs, we remove any one-off costs, credits or atypical items that we consider will not recur. We also carried out a cost trend analysis over recent years to identify if there were any costs incurred in 2025/26 that we consider unusually high or low. The resulting PC28 baseline is summarised in Table 5.1.

Table 5.1 - Derivation of PC28 baseline

	£m
2025/26 total outturn opex (IFRS)	**278.9**
PPP	-34.3
'One-off' costs	-2.3
Trend adjustments	0.5
Pension	5.0
RPI /CPIH indexation adjustment	3.9
Contractual inflation pressure	1.4
Adjusted PC28 Baseline (excluding PPP)	**253.2**

More details on how the baseline was derived, are provided in Appendix 5.1 Operational Cost Projections.

5.5 New and Exogenous Costs

We engaged with service delivery teams across NI Water to identify new and incremental operating cost pressures expected to arise over the remainder of PC21 and during PC28. Additional costs were only included where there is a robust basis for valuation and sufficient certainty that the pressure will materialise during PC28.

The new and/or additional costs reflect external factors outside NI Water's control, new or changing statutory and environmental compliance requirements, and targeted improvements to customer services. They also include additional operating costs associated with capital investment and contractual commitments under PPP arrangements.

The remainder of this section summarises each proposed cost increase. Appendix 5.1 provides the supporting analysis, explaining the underlying drivers, how costs have been estimated and where possible the steps NI Water has taken to minimise their impact.

5.5.1 Cost Changes Due to Exogenous Reasons Outside NI Water's Control

These additional pressures relate to new costs which arise due to exogenous factors that are outside NI Water's control:

- **LPS Rates -** NI Water's rates expenditure is expected to increase as a result of future property revaluations undertaken by Land and Property Services (LPS). Reval26, which was scheduled to take effect from 1 April 2026, has been paused by the Northern Ireland Executive. In the absence of confirmation from LPS regarding the timing and outcome of future revaluations, NI Water has adopted a prudent assumption of a 5% increase in Net Annual Value (NAV) arising from Reval26, effective from 2027/28, with subsequent revaluations in Reval29 and Reval32 also planned to result in a further 5% increase (based on historic trend analysis). We estimate rates expenditure will therefore increase by £15.3m over PC28.

- **ICT related cost increases -** NI Water requires continued investment in critical system and technology platforms that support field operations, asset management and customer services. Key cost pressures during PC28 arise from the transition of essential applications - MC5 and the Customer contact, Billing and Debt Management platform (CBC4) - to cloud-based service models and the future re-procurement of these business-critical services. The need to transition these systems is necessary to maintain service continuity, system resilience and security compliance. In addition, we recognise the importance that Artificial Intelligence (AI) will have on future programmes and are planning expenditure in PC28 to support the responsible adoption of AI technologies. We estimate ICT costs will increase by £14.9m in total over PC28.

- **PPP contract expiry -** The Alpha and Omega PPP contracts will end during PC28 - Alpha ends on 30 May 2031 and Omega ends on 5 March 2032. At this point, NI Water will take direct operational responsibility for these assets and the associated operating costs. While this creates a significant but unavoidable cost increase, it is more than offset by the cessation of PPP unitary payments. An additional £43.4m of operating costs are forecast to be incurred by the end of PC28.

- **Preparing for PC33:** We require £1.1m for specialist support to prepare the PC33 Business Plan, including £0.6m for PC33 preparatory and assurance work, £0.15m in supporting research and £0.3m for any additional Reporter or assurance requirements to support claims made via the cost uncertainty mechanism proposed in section 6.7.

5.5.2 Cost Changes to Meet Statutory and Environmental Obligations

This category includes costs that arise from changes to legislation, environmental requirements or regulatory practice.

- **Regulated electricity charges -** Regulated charges represent approximately 50% of NI Water's overall electricity costs and are mandated by the Utility Regulator and the Single Electricity Market (SEM) governance framework. Since 2015/16, annual regulated electricity charges have increased from less than £18m to almost £29m 2025/26. In the absence of a forward view from the Utility Regulator, NI Water has forecast costs based on historic data. Forecasts indicate that these costs will continue to rise throughout the remainder of PC21 and PC28, giving rise to a projected additional expenditure requirement of £36.4m over the PC28 period.

- **Regulatory fees -** The NIEA is reviewing its Regulatory Scheme of Charges, with early findings indicating significant under-recovery of regulatory service costs. NI Water has therefore forecast an additional £2.6m during PC28 for higher NIEA fees. In addition, NIEA has advised that its Wastewater Regulation Reform programme will require the review of all Water Order Consents,

resulting in a further £0.8m increase to fund NIEA consent review application fees and associated statutory advertising costs. Utility Regulator licence fees have also increased by 37% in real terms in 2026/27, adding £0.6m per annum of ongoing expenditure. In total, we expect regulator fees will increase by £6.4m over the PC28 period.

- **Wastewater regulatory reform –** Wastewater regulatory reform comprises a range of significant initiatives required to meet increasingly demanding NIEA regulatory standards. Key elements include the revised methodology for the testing and reporting of treated wastewater discharges; increased resourcing to deliver enhanced regulatory requirements; expanded priority pollutant monitoring and analysis; the delivery of a flow certification programme; and the implementation of a sustainable seven-day operating model. Collectively, these measures are intended to strengthen environmental compliance, improve regulatory assurance, and support the delivery of high-quality wastewater services. We estimate this will cost a total of £17.2m over PC28.

- **Climate change -** NI Water requires two additional Environmental Management System (EMS) resources at a cost of £0.6m during PC28 to support the expanded requirements of the revised ISO 14001 standard and maintain effective environmental governance across an increasingly complex operational scope. The enhanced resource will enable implementation of new climate resilience and performance reporting requirements, maintain certification, and provide assurance that environmental risks are effectively managed, thereby reducing the risk of non-compliance, regulatory intervention and reputational harm.

5.5.3 Cost Changes Necessary to Improve the Level of Service

This category includes the costs necessary to ensure we can improve the level of service in line with our Business Plan proposals and to enable NI Water to become more efficient:

- **Uni-directional flushing -** Uni-directional flushing (UDF) has emerged as a highly effective and efficient alternative for restoring and maintaining water quality within distribution networks. NI Water proposes a £14.7m PC28 opex programme to undertake UDF across approximately 6,200 km of water mains, supported by £9.8m of enabling capital investment. Taken together, this represents an overall programme cost of approximately £4 per metre, compared with over £170 per metre in capital for renewal. UDF offers a lower-cost, less disruptive solution offering better value and service to customers.

- **Business improvement -** NI Water will implement the PC28 PACE (Performance, Analytics, Customer and Efficiency) transformation programme at a cost of £1.5m per annum to support continued service improvement, efficiency and organisational resilience. The programme builds on previous transformation initiatives and will help address growing operational, environmental and growth-related challenges. Whilst no headcount reductions have been forecast, a placeholder of £0.25m per annum has also been included for potential voluntary severance or early retirement opportunities which may arise. Consistent with previous Utility Regulator practice, these transformation costs are excluded from regulated revenue and therefore do not impact customer tariffs.

5.5.4 Cost Increases as a Result of Capital Investment

- **Opex from capex -** This includes increases in operating costs arising as a result of capital investment in enhancement projects. Our analysis shows that operating costs will rise over PC28 by approximately £9.2m by 2032/33.

- **Capitalised salaries:** Capitalised salaries have been calculated in respect of employees whose activities are directly attributable to bringing assets into operational use. A review of NI Water's operational staff capitalisation policy undertaken during PC21 concluded that the existing approach no longer reflected current organisational structures and operating practices, following significant restructuring and the establishment of Asset Performance Teams. This has resulted in a broader cohort of operational staff meeting the capitalisation criteria, leading to an increase in capitalised staff costs relative to the 2025/26 base year. Consequently, higher capitalisation levels are forecast for PC28, resulting in a £17.3m reduction in opex across the period.

5.5.5 Commitments Under PPP Arrangements

We have two Design, Build, Finance and Operate (DBFO) Public Private Partnership (PPP) contracts that deliver a significant proportion of our water and wastewater services. Forecast PPP operating costs reflect our contractual obligations and incorporate adjustments for agreed contract changes and demand variations.

Our cost projections also reflect the expiry of the Alpha and Omega PPP contracts in May 2031 and March 2032 respectively. Upon expiry, ownership and operation of the assets will transfer back to NI Water and the associated unitary payments will cease.

In 2017/18, NI Water, through its subsidiary NI Water Clear Ltd, acquired the Alpha PPP contract. NI Water's obligations under the Alpha PPP agreement remain unchanged as a result of the acquisition, and NI Water continues to make the contractually determined unitary payments as before. Consistent with the acquisition business case, any financial benefits arising from the investment were returned to customers during PC21. No further benefits are forecast in PC28.

5.5.6 Operating Cost Summary

Table 5.2 brings together the overall operating cost projections for PC28 before applying our proposed efficiency savings. It provides a consolidated view of projected expenditure across the period and forms the starting point for applying the efficiency challenge.

Table 5.2 - Operating costs projections (pre-efficiency)

£m (2025/26 prices)	2028/29	2029/30	2030/31	2031/32	2032/33
Baseline	253.2	253.2	253.2	253.2	253.2
Cost Increases from Baseline					
Outside our control	3.7	7.3	10.2	19.1	34.4
Statutory & compliance	9.8	10.9	12.0	13.2	14.5
Improving services	3.2	4.3	5.4	5.4	5.3
Capital Investment	- 0.1	0.3	0.8	1.7	5.7
PPP Unitary Payments	70.0	70.5	65.2	39.1	-
Total projected opex	**339.8**	**346.4**	**346.7**	**331.7**	**313.1**

5.5.7 Forecast Cost Uncertainty

We have only included cost changes where there is a clear need, a robust basis for valuation and sufficient certainty that the pressure will materialise during PC28. Operating cost projections inevitably remain subject to uncertainty. Over the PC28 period, NI Water may face risks and pressures that cannot be fully predicted or quantified at the time of preparing this Business Plan. We have set out some potential changes below which may impact our costs going forward.

- **Business Rates** - We have not settled on an agreed position with LPS in relation to the Rates Revaluation 2027, therefore the figures used in this analysis are estimated.
- **Regulated electricity charges** – Regulated charges represent approximately 50% of our power costs. They are determined annually on 1st October by the Utility Regulator and are outside company control. Whilst our Real Price Effect forecasts adjust for forecast movements in the market prices, this does not address changes to regulatory charges. As no forward view is available from the Utility Regulator we have used historic trends as a basis for future costs which we recognise has limitations.
- **Consultation on Bathing Water Review** - DAERA's consultation on modernising NI's bathing water policy could lead to more designated bathing waters, enhanced monitoring and greater regulatory oversight of wastewater assets. As the outcome remains uncertain, any associated operational or capital costs have not been included in this Business Plan.

As more evidence on the above risks become available, we will share it with the Utility Regulator to ensure it is reflected in their FD or uncertainty mechanism.

5.6 Operating Cost Efficiency

Our approach to assessing the scope for efficiency savings remains consistent with previous price controls. We have retained the econometric benchmarking framework developed for PC21, as the models remain broadly robust for assessing operating expenditure efficiency. For PC28, however, we have adopted the approach to normalising power costs recommended by our advisers, Economic Insight. This recognises the exceptional impact of the energy price crisis on NI Water's power costs and our inability to hedge electricity costs in the same way as companies in England and Wales. The resulting assessment informs our proposed PC28 efficiency challenge, which combines a catch-up target with a frontier-shift challenge.

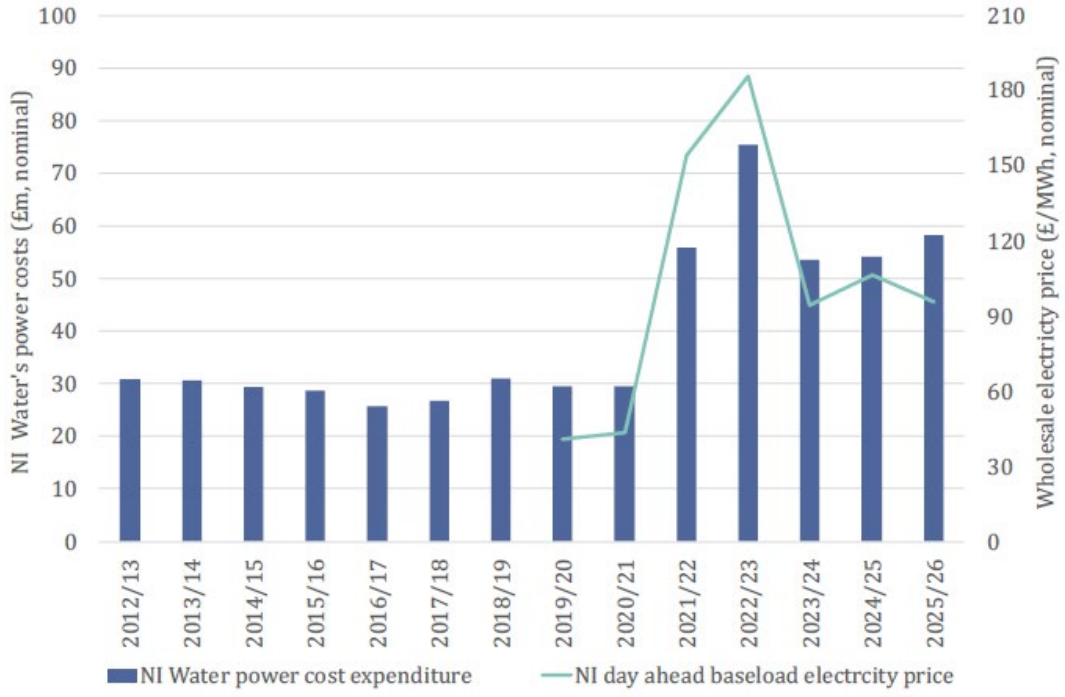
The following subsections summarise the assessment and explain how it informs our proposed efficiency targets. Appendix 5.2 Operating Cost Efficiency, provides the detailed supporting evidence, including Economic Insight's analysis, the model results, the treatment of power costs, the special cost factor assessment and the application of efficiency targets.

5.6.1 Econometric Models

We believe the econometric benchmarking models developed for PC21 continue to provide a sound basis for assessing NI Water's operating cost efficiency. These models compare NI Water's costs with water and wastewater companies in England and Wales and were developed through a collaborative process involving NI Water, the Utility Regulator and respective advisors, Economic Insight and CEPA. The models have been updated to include data for years 2019/20 – 2025/26.

The energy price crisis had a disproportionate impact on NI Water because of differences between electricity markets in Northern Ireland and Great Britain and because NI Water was unable to hedge wholesale energy prices in the same way as companies in England and Wales.

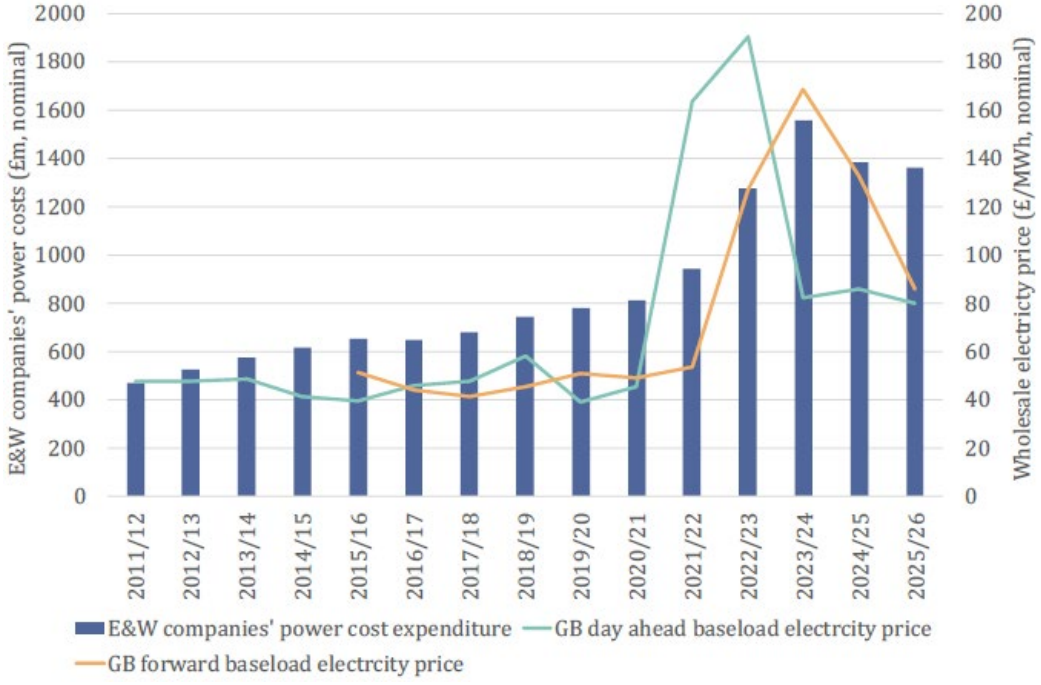
Figure 5.4a plots NI Water's power costs against day-ahead electricity prices over time. It shows that NI Water's power costs follow movements in the day-ahead price closely (i.e. are highly responsive to energy price shocks).



Source: Economic Insight

Figure 5.4a - NI Water's power costs & NI day-ahead electricity prices

Figure 5.4b plots English and Welsh (E&W) Water and Sewerage Companies (WaSCs) power costs against both: (i) day-ahead electricity prices; and (ii) electricity prices implied by a two year-ahead hedging strategy (where electricity for a given date is purchased incrementally over the previous two years). This shows that E&W WaSCs' power costs do not closely track movements in the day-ahead price and instead more closely follow movements in the two year-ahead hedging strategy price (i.e. they are relatively less responsive to energy price shocks).



Source: Economic Insight

Figure 5.4b- E&W companies' power costs & day-ahead and forward prices in GB

Without adjustment, these market differences would distort NI Water's modelled efficiency position and could incorrectly treat externally driven power cost increases as inefficiency.

5.6.2 Approach to Normalising Power Costs

In considering how best to normalise power costs, a range of potential approaches were considered. Our advisors, Economic Insight, recommended modelling power and non-power costs separately. This allows the effect of exceptional power price volatility to be isolated while retaining the integrity of the wider opex benchmarking assessment. This split power approach uses the following steps:

- **First, it estimates the efficiency gap for non-power opex.** Adjust the cost data used to estimate the opex cost assessment models to remove power costs from water and sewerage opex for all companies and years. Then estimate the updated cost assessment models using this data and calculate the model-implied efficiency gap over the final six years of the modelling period (2020/21 to 2025/26).
- **Second, it estimates the efficiency gap for power opex.** Estimate the updated cost assessment models using power costs only. The models are identical to those used throughout the rest of the report (and for non-power costs), except the accounting treatment dummy is dropped, as IRE expenditure is not relevant to power costs. Then calculate the model-implied efficiency gap over the most recent six-year period unaffected by power cost volatility (2015/16 to 2020/21).
- **Finally, it estimates a weighted-average efficiency gap across power and non-power opex.** Weight the efficiency gaps for power and non-power opex described above by NI Water's total power and non-power opex over the period 2020/21 to 2025/26 (2017/18 prices). Using this six-year period ensures that the relative weight assigned to power and non-power costs reflects their respective shares of NI Water's recent operating expenditure.

This approach is data-driven and limits the number of additional assumptions required. The approach has also been cross-checked against alternative methodologies and is considered a balanced and prudent basis for the PC28 Business Plan. More details are provided in Appendix 5.2 Operating Cost Efficiency.

In previous price controls, model results were also adjusted to reflect regional labour cost differences between Northern Ireland and England and Wales. For PC28, Economic Insight assessed whether a labour special cost factor adjustment remains appropriate. Their analysis found that a separate labour adjustment is not required as the existing models already capture the effect of lower regional labour costs through density-related model drivers. Applying a further post-modelling adjustment (as was the case in PC21) could therefore double-count this effect and overstate the appropriate efficiency challenge. On that basis, no labour special cost factor adjustment has been applied for PC28. This approach was discussed at the CAWG and is further detailed in Annex 5.2.2 PC28 Atypicals and SCF.

5.6.3 Our Assessment of the Gap

Using the updated Economic Insight modelling approach, NI Water's efficiency gap to the upper quartile companies in England and Wales is estimated at 1.8% based on an average taken over the 6-year period 2020/21 – 2025/26. Table 5.3 shows the model-implied efficiency gaps for non-power and power opex and the relative weight assigned to each.

Table 5.3 - Calculation of the opex efficiency gap using the split power cost approach

Cost area	Power costs (2020/21 - 2025/26)	Opex excluding power costs (2020/21 - 2025/26)	Efficiency gap for power costs (2015/16 - 2020/21)	Efficiency gap for non-power costs (2020/21 - 2025/26)	Weighted average efficiency gap
Water	£124m	£344m	4.5%	-3.9%	-1.7%
Sewerage	£129m	£281m	2.6%	−3.9%	−1.8%
Average					**-1.75%**

The result demonstrates that NI Water has moved substantially closer to the upper quartile benchmark. We believe this is a realistic assessment of our relative efficiency and is consistent with our expectations and reflects the significant efficiency improvements delivered during PC21.

5.7 Setting Efficiency Targets

Consistent with the approach adopted in the PC21 Business Plan, we propose to close 80% of the remaining efficiency gap by the end of PC28. Alongside this catch-up challenge, we propose a productivity challenge of 0.4% per annum combined with Real Price Effects to give us an overall frontier shift challenge, reflecting the scope for continued sector-wide productivity improvements through innovation and more efficient ways of working.

We have applied these challenges to our operating cost projections, with adjustments for cost categories where a different treatment is appropriate:

- **Business rates** are excluded from the catch-up challenge, consistent with PC21, as they are excluded from the econometric benchmarking models and are determined on a materially different basis in Northern Ireland compared with England and Wales. A productivity challenge is nevertheless applied.
- **Regulated electricity charges** are excluded from the catch-up challenge because they are driven by regulatory decisions outside NI Water's control. These charges are materially higher than in previous price controls, although a productivity challenge is still applied.
- **Regulatory fees** are excluded from both the catch-up and productivity challenges because they lie entirely outside NI Water's control.

Table 5.4 sets out the proposed efficiency targets and their application to the relevant operating cost categories.

Table 5.4 - NI Water PC28 Efficiency targets

	2028/29	2029/30	2030/31	2031/32	2032/33
Efficiency targets applied to all opex excluding Business Rates & Regulatory Charges					
Catch up efficiency (cumm.)	-0.1%	0.4%	0.8%	1.3%	1.3%
Frontier shift efficiency (cumm.)	0.6%	0.2%	0.2%	0.3%	0.3%
Combined efficiency challenge	**0.5%**	**0.6%**	**1.0%**	**1.6%**	**1.6%**
Efficiency targets applied to Business Rates and Regulatory Charges					
Frontier shift efficiency (cumm.)	0.6%	0.2%	0.2%	0.3%	0.3%

Taken together, the catch-up and frontier shift assumptions result in an overall operating cost efficiency challenge of 1.6% by the end of PC28.

Applying these efficiency targets to our PC28 operating cost projections will deliver real cost savings of £4.6m from 2025/26 to the end of PC28. Table 5.5 shows the resulting operating expenditure

projections before and after efficiency in PC28. The operating cost allowance sought in the Business Plan therefore reflects the efficient cost of delivering essential services. This is a demanding target but we are confident it is achievable if the required transformation funding is made available.

Table 5.5 - PC28 Operating cost and efficiency projections

£m (2025/26 prices)	2028/29	2029/30	2030/31	2031/32	2032/33
Baseline	253.2	253.2	253.2	253.2	253.2
Cost Increases (Table 5.2)	16.6	22.8	28.3	39.4	59.9
PPP	70.0	70.5	65.2	39.1	0.0
Total opex pre-efficiency	**339.8**	**346.4**	**346.7**	**331.7**	**313.1**
Efficiency challenge	-1.4	-1.4	-2.3	-3.4	-3.5
Total opex post-efficiency	**338.4**	**345.0**	**344.4**	**328.3**	**309.6**

5.8 Delivering Efficiencies in PC28

NI Water is a transformed organisation, delivering high-quality essential water and wastewater services to customers and communities. Over the past 15 years, our transformation programme has strengthened organisational resilience, capability and delivered significant efficiencies.

Despite this progress, significant challenges remain. The wastewater network is under increasing pressure, impacting environmental performance and constraining new connections. Weather patterns are becoming more extreme, while legally binding net zero commitments require fundamental changes in how we operate. At the same time, we must deliver further efficiencies within a fixed funding envelope.

To meet these challenges, NI Water must continue to provide resilient services, support economic growth, enhance environmental compliance and maintain affordability for customers. Achieving this will require a combination of transformational innovation and rigorous operational discipline. We must move from reactive management to anticipatory control, ensuring that limited investment is targeted towards the highest-value outcomes.

In this context, transformation is not optional; it is essential. The PC28 transformation programme will be a key enabler in delivering better outcomes for customers, communities and the environment while maintaining affordability.

To achieve this, NI Water will implement the PC28 PACE transformation programme (Performance, Analytics, Customer and Efficiency). Building on the foundations established through previous price controls, PACE provides a structured, evidence-based framework for delivering further improvements in efficiency, service performance and organisational resilience. The programme will comprise of three main initiatives that are aligned to our PC28 transformation priorities as outlined in the figure 5.5:

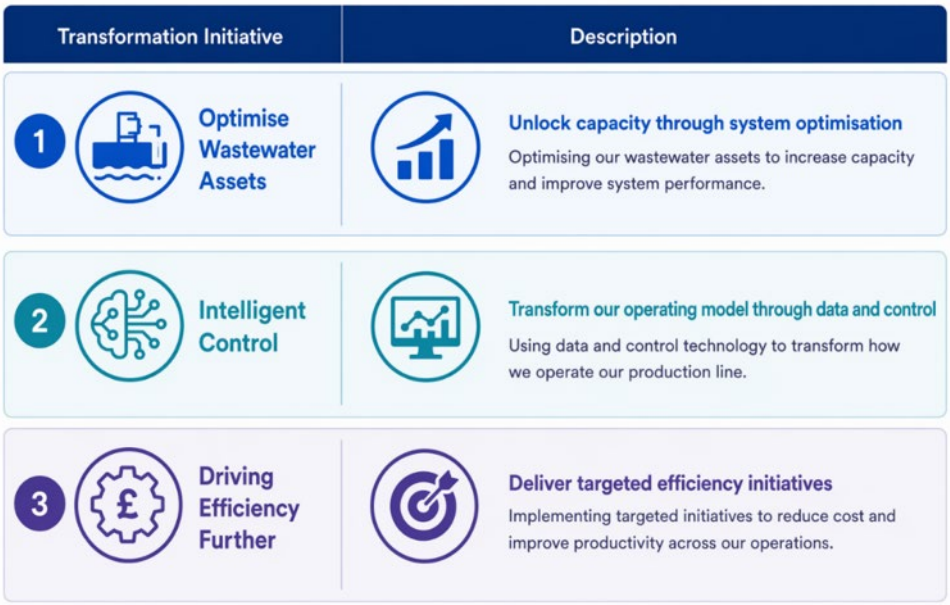


Figure 5.5: PC28 Transformation Approach

5.8.1 Significant Financial and Non-Financial Benefits

The PC28 transformation programme delivers a compelling value proposition by combining targeted capital investment with sustained operational efficiencies, while also improving customer, environmental and organisational outcomes.

The programme comprises of £84.3m targeted investment to achieve measurable reductions in operating expenditure, avoid or defer capital investment through alternative solutions, improve environmental compliance, enhance customer experience and strengthen organisational capability.

5.8.2 Cost Savings

We estimate this work will deliver a gross annual recurring opex saving of circa £4.6m by end of PC28. Figure 5.6 below summarises these benefits:



Figure 5.6 PC28 PACE Benefits

The PACE programme represents a credible and proportionate response to the PC28 challenge. It enables NI Water to continue its transition towards a more intelligent, efficient, and resilient utility, capable of delivering better outcomes within a constrained funding environment.

5.9 Appendices and Annexes

The following appendices and annexes provide supporting information for this chapter.

Reference	Supporting Document
Appendix 5.1	Operational Cost Projections
Annex 5.1.1	Business Transformation
Appendix 5.2	Operating Cost Efficiency
Annex 5.2.1	Economic Insight cost assessment models for PC28
Annex 5.2.2	PC28 Atypicals and SCF
Annex 5.2.3	Economic Insight Labour SCF at PC28
Annex 5.2.4	Economic Insight frontier shift report