

RC4 Proposal Paper

Uisce Éireann Revenue Control 4

UÉ Proposal Paper - Uncertainty
Mechanism Framework (2025-2029 period)

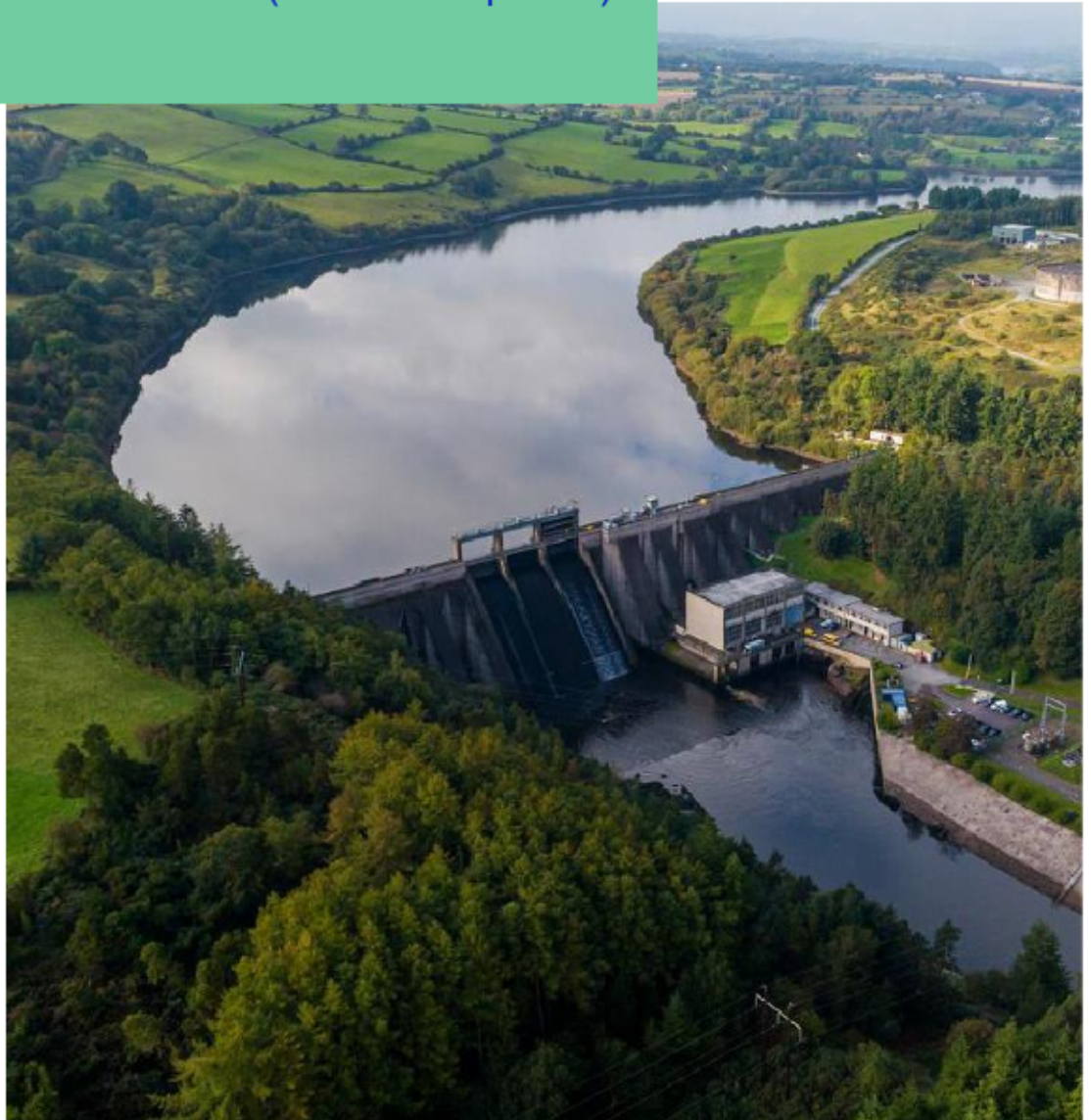


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1. Executive Summary

The Uisce Éireann (UÉ) funding model is linked to the Government's annual budgetary process. Operating on an annual cash basis with funding set in advance of each year, means UÉ does not have available reserves and/or working capital facilities to meet unforeseen costs. In recent years, UÉ has faced a high level of uncertainty which has impacted its financial resources. This was recognised in three CRU interim revenue reviews during the RC3 (2020-2024) period¹.

This high level of uncertainty is expected to continue into the RC4 (2025-2029) period. As indicated in UÉ's Opex Look Forward submission paper², increased requirements have emerged in several areas since submission of the Strategic Funding Plan³ (SFP), including:

- New requirements under the EU 2020/2184 Drinking Water Directive;
- Emerging requirements under the EU Recast Urban Waste Water Treatment Directive (UWWTD);
- Energy network costs due to a significant increase in electricity network charges announced by the CRU in August 2024;
- Revised housing targets under the new Programme for Government⁴; and
- Updates to staff transfer profiles under the UÉ Transformation Programme.

Given the uncertainty as to the extent of these obligations, there was insufficient information available to allow UÉ to include fully reliable cost estimates in its RC4 submission. However, it is evident that such additional requirements have the capacity to materially increase UÉ's cost base.

Other regulated energy and water sectors have established structured Uncertainty Mechanisms and/or Agile Frameworks to manage and mitigate utilities' exposure to uncertainty from one revenue control period to another. These are intended to complement existing regulatory framework correction or k-factor mechanisms. Further details on some schemes in operation in other regulated sectors are set out in the appendices to this paper.

Given UÉ's reliance on annual exchequer funding, and the type and scale of uncertainty faced in RC4, UÉ considers that a structured mechanism should be

¹ See appendix 1 for a summary of the RC3 interim revenue reviews.

² See section 4 of UÉ's Revenue Control 4 (2025-2029) Operating Expenditure Look Forward paper.

³ On 5 November 2024 the Minister approved the SFP submitted by UÉ on 2 September 2024. The SFP provides the basis for the RC4 submission.

⁴ The Programme for Government published on 23 January 2025 (see [here](#)) commits to accelerating housing supply by ramping up construction capacity to build over 300,000 new homes by the end of 2030.

applied in RC4 in addition to the existing k-factor mechanism. UÉ proposes that an Uncertainty Mechanism structure, similar to that applied by Ofwat to English and Welsh water companies, would be the best approach. Specifically, UÉ proposes the adoption of four complementary mechanisms which will operate depending on whether the uncertainty is due to pass-through costs, unconfirmed volumes, fluctuating indices, or unconfirmed costs:

- **Pass-through.** These are items with unavoidable costs outside UÉ's control but where it is certain that they are required; such as the levies paid to the EPA or CRU to fund their regulatory activities, Local Authority rates and energy network costs⁵;
- **an asset-linked volume driver.** Where the efficient costs of potential incremental investments can be revealed through the RC4 process, but the required volume is uncertain, allowances could be linked to an automatic asset-linked volume driver (for example, the amount of testing and sampling required to be carried out across the country under the new Drinking Water Directive);
- **an index-linked cost driver.** It is proposed that this will apply to cost categories where the scale and volume of costs can be reliably forecast within a certain range but where the cost per unit is variable, market driven and cannot be controlled by UÉ. Examples of variable costs per unit could include costs that will vary by reference to a verifiable, measurable and published index such as WPI⁶. It is proposed that allowances could be linked to an automatic index-linked cost driver. In the case of UÉ this could include Operating and Maintenance contracts of certain water and waste water treatment plants which are linked to WPI or electricity / gas costs which are driven by UÉ's hedging strategy that, in turn, is linked to energy market factors; and
- **a targeted reopener.** For material, unanticipated requirements which arise after the CRU's RC4 decision, we propose a targeted reopener, through which the CRU would determine an additional allowance to fund the additional activity forecast.

The proposed approach would be of benefit to both the CRU and UÉ as it would provide an efficient mechanism to manage RC4 cost uncertainty in a structured, transparent and effective way.

It would also provide a strong foundation for the Government to assess UÉ's Exchequer funding request for the following calendar year and enable the alignment of such funding with the approved CRU allowances. To achieve this, it is key that the Uncertainty Mechanisms are forward looking where possible (i.e.

⁵ In H2 each year the CRU publish network charges for all customers covering ongoing investment in the electricity and gas systems which apply for the following tariff year (October to September).

⁶ [Wholesale Price Index - CSO - Central Statistics Office.](#)

the allowances adjust with verifiable index forecasts such as HICP, electricity wholesale price index and forward gas prices or a provision allowing revenue to vary as a function of a volume measure or any CRU decision on a targeted reopener).

UÉ proposes issuing an Uncertainty Mechanism report annually to the CRU. The report would be submitted in May, in advance of UÉ's Exchequer funding request for the following year, and would provide a latest (RC4 ex ante and ex post) position on UÉ's opex and capex allowances, based on UÉ projections of pass through costs, activity/volumes, verifiable market forecasts and any other supporting evidence for the Uncertainty Mechanisms agreed with the CRU. The report would also include a true up process and a progress update on the use of each Uncertainty Mechanism including information regarding outputs delivered, additional funding received or requested and any revenue impacts. A further section of the report will detail information regarding the potential future use of each Uncertainty Mechanism, to the extent that UÉ has such information.

As a proposed new addition to the Revenue Control process, UÉ recognises that the Uncertainty Mechanism structure will require further discussion with the CRU and key stakeholders regarding its suitability. UÉ welcomes follow up engagement on an appropriate Uncertainty Mechanism structure both in advance of, and during the RC4 public consultation phase.

The remainder of this paper is structured as follows:

- Section 2 summarises selected areas of uncertainty faced by UÉ in RC4 where reliably estimated costs were not available and could not be taken account of in the SFP.
- Section 3 sets out the provision for uncertainties under the existing regulatory framework.
- Section 4 details the structured Uncertainty Mechanism that UÉ proposes for RC4.
- Appendix 1 provides a summary of the interim revenue reviews carried out during RC3.
- Appendix 2 summarises the key design features of the Uncertainty Mechanism to be applied by OFWAT to water utilities operating in England and Wales companies during the PR24 period.
- Appendix 3 summarises the key features of the flexibility mechanism adopted by ESB Networks (ESBN) and the Uncertainty Mechanisms adopted by Gas Networks Ireland (GNI).

2. UE is facing a high level of uncertainty at RC4

UE operates within a complex regulatory and legislative environment, which is constantly evolving. While UE manages its cost base carefully, some costs (such as energy costs) that the regulatory framework currently treats as controllable are beyond UE's direct control.

Since the submission of UE's SFP, additional requirements have emerged in a number of areas. These increased requirements have the capacity to materially impact UE's costs base. Given the uncertainty as to the extent of these obligations, there was insufficient information available to allow UE to include full cost estimates in its RC4 submission. Similarly, new or changing Government policies or other core requirements may yet emerge which must be implemented during RC4 but were not known or provided for within the SFP submission.

Some key categories of uncertainty that could not reliably be factored into the costs in the SFP include, but are not limited to, the following:

A. Macro Uncertainty

Description: Changes in nature and/or timing of regulations or policies that govern the industry can alter schedules, project requirements or approvals.

Examples:

- Government Policies: for example, there may be possible increases in Housing for All new connection targets. UE's SFP is currently based on the existing Housing for All policy targets of c. 30,000 new connections per year but the publication of a revised Housing for All policy may increase targets to an average of c. 50,000 per year during RC4.
- Changes in Funding: for example, changes may arise from the Government review of investment for the 2027-2029 period and publication of a new National Development Plan (NDP) based on the progression of capital projects, particularly the major projects.
- Additional investment requirements, such as Developer Provided Infrastructure (DPI⁷) and other small supplies⁸ legacy infrastructure may also need to be assessed as they arise. UE is progressing studies and working with officials in the Department of Housing, Local Government and Heritage (DHLGH) on determining the next steps. The latest survey findings carried out by local authorities on behalf of the DHLGH in 2023/24 indicate that there are 457 wastewater DPis and 28 water DPis. Early

⁷ DPI describes private standalone wastewater treatment systems which were installed to service lands mostly over the period 1999 to 2006. Most of the DPis are wastewater treatment plants with a small number of water treatment plants.

⁸ Small supplies refers to small water and wastewater systems which were installed by local authorities, typically to service clusters of rural local authority housing.

indications are that these numbers may increase significantly. Any additions to the DHLGH list are to be ratified by the national DPI steering group. The current indication is that there are 401 legacy small supplies; 214 water and 187 wastewater. The associated incremental funding needs will be identified as part of this process and the appropriate funding solutions agreed, it may lead to funds being assigned under the NDP.

- A shift in environmental standards/legislation requiring additional compliance measures: for example, new requirements under the Drinking Water Directive will mean a significant increase in testing and sampling across the country. Similarly, the revised Urban Waste Water Treatment Directive will increase compliance standards applicable to UÉ's infrastructure. In addition, EU Drinking Water Regulations require UÉ to carry out an assessment of water leakage and potentially develop action plans to further reduce leakage rates which may necessitate increased investment during RC4.

B. Market and Economic Variability

Description: Fluctuations in market conditions can affect cost estimates, funding availability, or demand projections.

Examples:

- Rising inflation; for example, inflationary pressures on UÉ's energy costs and Design Build and Operate (DBO) contracts⁹.
- Commodity price volatility (e.g., steel, concrete, or energy) affecting construction expenses.
- Rising mandatory input costs: for example, there may be further increases in energy network costs which deviate materially from RC4 allowances.
- Economic downturns reducing available capital or demand for services.

C. Operational and Execution Risks

Description: Unforeseen challenges in project implementation, such as resource constraints or contractor issues.

Examples:

- Workforce shortages leading to project delays. For example, assumptions have been made in relation to the options that Water Services staff may avail of under the Government Framework for sectoral transformation. These assumptions may not materialise.
- Supply chain disruptions affecting material availability and timelines.

⁹ DBO contracts are contracts between UÉ and third parties for the operation and maintenance of certain water and wastewater treatment sites. A large proportion of the DBO contracts comprise an energy indexation component impacted by volatile energy prices.

D. Environmental and Social Risks

Description: Factors outside the company's direct control, such as natural disasters, conflicts, or public opposition.

Examples:

- Pandemic or weather events disrupting construction schedules.
- Delays in planning and/or consents impacting the progression of key projects, particularly the major projects.

The scale of this uncertainty creates considerable challenge as additional demands that arise over the 2025 to 2029 period must either be directly funded or else accommodated through de-funding other committed areas of activity. At an aggregate level, shortfalls in funding would result in UÉ being unable to deliver the operational and environmental improvements that customers and stakeholders expect.

3. Existing Framework provision for uncertainties

The CRU regulates UÉ through a form of revenue cap regulation which allows adjustments relating to one revenue control period to feed through into subsequent periods. The CRU's existing regulatory framework includes an adjustment mechanism referred to as a k-factor mechanism.

The k-factor mechanism applies to over or under recoveries of revenues and permissible variations in costs (e.g. uncontrollable opex) from the pre-determined level of allowed revenues. The k-factor is an adjustment used to allow for the fact that while the CRU approves a level of revenue to allow UÉ to recover its costs over a regulatory period, this level depends on assumptions about what happens over the course of that period but may not necessarily reflect events as they occur. The adjustment essentially corrects for these events by applying a correction to the revenue to be collected in subsequent periods.

While the k-factor mechanism mitigates UÉ's exposure to uncertainty to a certain extent, it is not sufficient on its own given the nature of UÉ's funding model and its annual funding allocation.

During RC3, the CRU carried out three interim reviews and approved adjustments to UÉ's opex and capex allowances, primarily due to the impact of continued inflationary pressures on energy costs, DBO contracts and construction, in addition to the costs associated with the impact of the delay in the water sector transformation, for the remainder of the 2020-2024 period. See appendix 1 for further details on these RC3 interim reviews including the assessment framework criteria used by the CRU when approving adjustments to UÉ's revenue.

Similar to recent trends in the UK and Irish energy sectors and UK water sector¹⁰, UÉ proposes that a more structured Uncertainty Mechanism or Agile Framework is put in place for RC4 rather than the more reactive interim reviews required in RC3. The proposed approach will be of benefit to both the CRU and UÉ as it is intended to provide an efficient mechanism to manage uncertainty in a structured, transparent and effective way.

The wider UÉ funding model, including a heavy reliance on annual exchequer funding, means UÉ has no available reserves to accommodate unforeseen cost pressures. This differentiates UÉ from its peers in the UK and Irish energy sector and the UK water sector who can access cash reserves and / or working capital facilities. It is essential that UÉ's RC4 revenue allowances are reviewed annually

¹⁰ See appendices 2 and 3 for summaries of existing Irish and UK approaches.

to ensure they remain sufficient to meet the demands of an increasing population, facilitate service improvements for customers, and ensure UÉ viability. The inclusion of an Uncertainty Mechanism or Agile Framework could complement the k-factor mechanism and provide the basis for a more structured annual check-in during RC4.

4. UÉ's proposed RC4 Uncertainty Mechanism

UÉ proposes that for RC4 the CRU should adopt a structured Uncertainty Mechanism with common design features which could be applied across a wide range of cost categories.

UÉ proposes the CRU adopts four complementary mechanisms aimed at different types of uncertainty. UÉ's proposals draw on the design of the Uncertainty Mechanisms Framework submitted by Water UK as part of Ofwat's Price Review (PR) 24 process¹¹.

1. pass-through

For costs deemed to be wholly outside of UÉ's control, allowances could be linked to an automatic regulatory or statutory decision-linked driver. For example, this could be applied if energy network costs deviate materially from RC4 allowances which will be based on the expected value of the pass-through cost for the five years of the revenue control. The mechanism will adjust this ex ante allowance to true-up for actual costs incurred and updated forecasts for costs to be incurred.

2. an asset-linked volume driver

Where the efficient costs of potential incremental investments can be revealed through the RC4 process, but the required volume is uncertain, allowances could be linked to an automatic asset-linked volume driver. For example, this could be applied if new requirements under the Drinking Water Directive results in a significant increase from the cost impact of testing and sampling across the country already included within the SFP based on additional funding becoming available.

3. an index-linked cost driver

Where the required scale and volume of investments is certain but the efficient cost per unit of volume (e.g. cost p/kwh) is uncertain, allowances could be linked to an automatic index-linked cost driver. For example, this could be applied within the Revenue Control period if inflationary pressure on energy costs¹² and DBO contracts is having a material impact on UÉ's operational expenditure requirements for the following year(s) of RC4.

For each of the above three mechanisms (1-3), UÉ's allowances will adjust up/down with the agreed Uncertainty Mechanism thereby providing regulatory support for UÉ's Exchequer funding request for the following year.

¹¹ See Water UK Position Paper on a common framework for uncertainty mechanisms at PR24 [here](#)

¹² UÉ's energy costs are linked to gas forward prices based upon an approved energy hedging strategy

4. a targeted reopener

For material, unanticipated requirements which arise after the CRU's Final RC4 Determination, we propose a targeted reopener, through which the CRU would determine an additional allowance to fund extra workload and/or expenditure need. For example, this could be applied if UÉ is required to increase the number of new connections per year during RC4 (from current Capital Investment Plan forecasts) based on additional funding becoming available.

Given that UÉ's funding model differs from peer Utilities, we do not consider it is appropriate to set a materiality threshold level required to trigger a targeted reopener. Rather materiality should be assessed by UÉ in the context of whether or not UÉ has the funds needed to respond to mandated Governmental policy, Regulatory initiatives or Compliance requirements over the 2025 to 2029 period.

As UÉ's funding requirement is mainly provided by Government, it is essential that adequate funding provision is made in the annual government budgetary process for the effective operation of water services each year. As the assessment criteria remain fit for purpose, UÉ proposes that the CRU should use the same assessment framework it used in RC3 when deciding whether or not to approve any UÉ request for a targeted reopener during RC4 (see appendix 3 for further details).

In the next two tables, we set out:

- Table 1 – the suggested design features of each of the four types of proposed Uncertainty Mechanism.
- Table 2 – examples of how each of those mechanisms might be used to address uncertainty in different investment areas.

Table 1 - Proposed design features of each uncertainty mechanism

Dimension	Key considerations	Pass Through	Asset-linked volume drivers	Index-linked cost drivers	Targeted reopeners
Scope	Does the Uncertainty Mechanism apply to a specific cost item (e.g. an investment category), or does it apply more broadly (e.g. to one or more revenue control)?	Applies to uncontrollable costs i.e. costs deemed to be wholly outside of UÉ's control.	Investment programmes with uncertainty about the volume of work required because of uncertainty about Government policy and/or funding/legislation/regulations or how they will be enforced.	Investment programmes where the volume of work is reasonably certain but the cost per unit of volume (e.g. p/kwh) is more uncertain over the five year period because it is directly or indirectly ¹³ index linked.	Areas of investment in the revenue control where UÉ may face a previously unanticipated, material cost if external requirements change during the revenue control.
Trigger	How is the Uncertainty Mechanism activated? For example, is it triggered by an external event/decision (e.g. from the Environmental Protection Agency or EPA), is it	A regulatory or statutory decision which updates (+/-) pass through costs. For example, CRU decision on energy network costs ¹⁴ .	The Government, EPA (for example based on Drinking Water Directive requirements) or other Authority formally notifying UÉ of requirements. UÉ will notify the CRU as part	UÉ notification to the CRU of updates (+/-) to efficient costs based on changes to verifiable, measurable indices. For example, DBO (electricity index), Energy (gas prices),	UÉ notification to the CRU of new, material cost.

¹³ An example would be UÉ's energy costs are linked to gas forward prices based upon an approved energy hedging strategy.

¹⁴ It is UÉ's view that network energy costs could reasonably be treated as pass through costs as set out in section 4 of the Operational Expenditure Look Forward 2025-2029 submission.

	triggered by a UÉ request/notification or is it at the CRU's discretion?		of the annual Uncertainty Mechanism report.	inflation (HICP) and real price effects relating to capital projects (UÉ hybrid index).	
Level of automation	Does triggering the Uncertainty Mechanism automatically 'release' funding to UÉ, or does it launch a process through which the CRU decides what allowance to grant?	High automation – pre-agreed additional or reduced revenue released once trigger activated.	High automation – pre-agreed additional revenue released once trigger activated.	High automation – pre-agreed additional or reduced revenue released once trigger activated.	Low automation – while the process is defined in advance, the CRU must still manually assess requests for allowances.
Allowance	What is the level of funding, how and when is it received (e.g. in line with expenditure or based on a future 'ex-post' true-up)? How is the funding linked to the work that needs to be carried-out?	Pass through costs increase or decrease on a look forward or look back basis in accordance with a regulatory or statutory decision.	Unit prices agreed in € terms at the CRU's final RC4 determination.	Scale and volume of costs agreed at the CRU's final RC4 determination, the cost per unit of volume will increase or decrease by reference to a verifiable index.	The allowance is set by the CRU following consultation with UÉ (and other stakeholders), in advance of UÉ's Exchequer funding request for the following year, through an adjustment to total allowances.

<p>Protections for customers and companies</p>	<p>How will company and customers be protected from any overspending or under-delivery, and how can the company be incentivised to spend the allowance efficiently (e.g. through enhanced Outputs and Outcomes?)</p>	<p>The mechanism is externally triggered, avoiding any risk that UÉ can 'game' the revenue control.</p>	<p>The mechanism is externally triggered, avoiding any risk that UÉ can 'game' the revenue control to build unnecessary additional capex. All protections which apply to the core revenue control settlement would also apply. Enhanced Outputs and Outcomes may apply in return for additional revenues.</p>	<p>The mechanism is externally triggered, avoiding any risk that UÉ can 'game' the revenue control to build unnecessary additional capex. All protections which apply to the core revenue control settlement would also apply.</p>	<p>Assessment of costs by the CRU protects customers from inefficient or unnecessary expenditure. Enhanced Outputs and Outcomes may apply to reflect changes in external requirements.</p>
<p>Process and requirement on UÉ and the CRU</p>	<p>Based on above dimensions, what evidence must the UÉ submit to the CRU to receive funding? Is there a large burden on the CRU and/or UÉ?</p>	<p>Light-touch process for UÉ to notify the CRU that trigger has been activated and the CRU to verify this, and then reconcile via UÉ annual Uncertainty Mechanism reporting and the k-factor review.</p>	<p>Light-touch process for UÉ to notify the CRU that trigger has been activated and the CRU to verify this, and then reconcile via UÉ annual Uncertainty Mechanism reporting, the Capital Investment Plan (CIP) Change Control</p>	<p>Light-touch process for UÉ to notify the CRU that trigger has been activated and the CRU to verify this, and then reconcile via UÉ annual Uncertainty Mechanism reporting, the CIP Change Control process (where relevant), and the k-factor review.</p>	<p>UÉ required to submit evidence to the CRU, and the CRU to assess and make its determination following whatever public process it deems appropriate. Evidence and assessment would include a needs case, options assessment and evidence</p>

			process ¹⁵ (where relevant), and the k-factor review.		that proposed expenditure is efficient.
Impacts on the rest of the revenue control	Does the Uncertainty Mechanism affect (or 'reopen') any other elements of the RC4, e.g. the decision on debt/equity returns (WACC)? How would it interact with revenue control deliverables and output and outcomes?	None	Limited – potential to revise related components where additional investment affects Outputs and Outcomes. Any potential impacts to be considered as part of annual Uncertainty Mechanism and CIP Monitoring (where relevant) reporting. No need to revisit other elements of the revenue control.	None	Limited – potential to revise related components where additional investment affects outputs and outcomes. Any potential impacts to be considered as part of annual Uncertainty Mechanism and CIP Monitoring reporting (where relevant). No need to revisit other elements of the revenue control.

¹⁵ Provides for instances where UÉ may need to re-prioritise the CIP due to changing circumstances that had arisen. The process includes the requirement for an annual CIP Monitoring report to inform stakeholders on the progress being made on Revenue Control targets and commitments.

Table 2 below sets out our consideration of which mechanism could be the most appropriate for mitigating different kinds of uncertainty. In general, we propose pass through, an asset-linked volume driver or an index-linked cost driver wherever the volume of work required, while uncertain, can be defined in advance. Where the requirement is less certain, or it is not possible to define work, we suggest a targeted reopener is more appropriate. This list is not intended to be exhaustive – instead it illustrates how we consider each of the mechanisms could be used to mitigate some of the uncertainty already identified.

Table 2 Examples of potential use of the uncertainty mechanism by investment area

Investment Area	Regulatory Uncertainty (Illustrative and non-exhaustive)	Impact on RC4	Likely most appropriate mechanism
Drinking Water Directive Sampling	Laboratory testing and sampling: The new requirements under the Drinking Water Directive will mean a significant increase in testing and sampling across the country. Full compliance with the testing components of this Directive is currently expected to cost c.€45m annually.	Only c.€8m of this cost impact is included within the SFP and RC4 submissions, representing a glidepath to c. 20% compliance over RC4. There is also potential for the increased testing to give rise to additional capital and operating expenditure which has not been factored into projections.	Asset-linked volume driver

Recast Waste Treatment Directive	Urban Water	The recast UWWTD was formally adopted on 5 November 2024. The revised UWWTD extends the scope to smaller agglomerations, covers more pollutants, including micropollutants, and contributes to energy neutrality. EU member states, including Ireland, have 30 months to adapt their national legislation to take account of the new rules ('transpose the directive').	This will increase the compliance standards for wastewater treatment across UÉ's infrastructure and, ultimately, will increase costs. The exact scale and timing of the cost increase is unknown at this stage.	Targeted reopener
Housing for All – New Connections	UÉ anticipates possible increases in Housing for All annual new connection targets. This would be contingent on further Government funding becoming available.	The CIP is currently based on c.30,000 new connections per year for the next five years but additional funding may increase targets to c.50,000 per year.	Targeted reopener	
Energy costs – p/therm, DBO contracts etc	Inflationary pressures on UÉ's energy costs and DBO contracts. See below for an indicative example of how index-linked cost driver could work for energy costs.	Indexed by inflation and RPE.	Index-linked cost driver (annual review to assess if forward forecasts using verifiable indices, e.g. electricity or gas indices, are materially different from the projected HICP rate included in the RC4 decision. A summary analysis ¹⁶ will be included in UÉ's Uncertainty Mechanism annual report).	

¹⁶ As part of this analysis, UÉ will provide a summary on spend versus what was forecast in its RC4 submission including an update on the energy hedging strategy.

Non-Controllable costs	A significant increase in electricity network charges was announced by the CRU in August 2024. It is ÚE's view that this element of energy costs could reasonably be treated as uncontrollable costs (pass through). A significant increase in the CRU's Water Levy (operational costs) was also announced in December 2024.	The increase in electricity network charges has increased ÚE's annual energy costs by c.€11m since the SFP was submitted. ÚE had budgeted in the SFP and RC4 for the CRU Levy to be €3m in 2025 but the CRU's operational costs levied to ÚE has increased from €2.8m in 2024 to €4.1m in 2025.	Pass through (annual review based on regulatory or statutory decision).
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See below example for how an index-linked cost driver energy uncertainty mechanism might work in practice. Figures are indicative and for illustrative purposes. Assume for a given year that energy cost allowance is €149m, as derived below:

Kwh usage – annual	465m
c/kwh	0.32
€m	149

Assume an energy price shock and energy prices increase by 20%. This would result in a cost increase of c.€30m thereby triggering the Uncertainty Mechanism and an uplift in allowances as ÚE would not have any other mechanism to fund via cash reserves or a working capital facility. ÚE can provide evidence of energy hedging, which has resulted in the revised submitted rate, in this case 38.4c per kwh.

Kwh usage - annual	465m
c/kwh	0.384
€m	179

Appendix 1: RC3 Interim Revenue Reviews

During the RC3 period (2020-2024), the CRU carried out three interim reviews on adjustments to UÉ's RC3 allowed revenues:

1. UÉ RC3 Update – Controllable Operational Expenditure 2022 to 2024

In August 2021, the CRU re-assessed UÉ's opex efficiency challenge for 2022, 2023 and 2024 following the Minister publishing the Water Sector Transformation Policy Paper in April 2021¹⁷. The efficiency targets were reduced to 1% in 2022 and 4% in 2023, to reflect the impact of a one-year delay to the WIOF Programme. An allowance was also provided in 2022 for one-off separation costs associated with UÉ's separation from Ervia.

2. UÉ RC3 Interim Review carried out in 2022 for the remainder of the RC3 period¹⁸

In July 2022, the CRU consulted on a proposed assessment framework and also a number of potential options for inflationary adjustment. UÉ provided two submissions to the consultation, one for opex and the other for capex. These submissions detailed the additional funding that UÉ was requesting and the basis for the projections. UÉ requested that the additional capex be funded from monies ringfenced within RC3 for the delivery of designated major projects (which was available to be released to the wider portfolio because of changes in the timelines for Major Projects). The CRU concluded that UÉ was facing real external inflationary factors which were material and beyond the full extent of management control which, absent an adjustment to the RC3 allowance, would lead to undesirable consequences from a policy perspective for water and wastewater customers.

3. UÉ Additional 2024 opex request for 2024 (consultation carried out in 2023¹⁹)

In July 2023, UÉ made a submission to the CRU to request an additional opex allowance for 2024. The rationale for the additional request was made predominantly on the grounds of continued inflationary pressures on energy costs and DBO contracts, and the costs associated with the impact of delay in the water sector transformation. UÉ's submission and rationale was published with the CRU's decision.

¹⁷ See further details on the CRU's decision [here](#) and [here](#)

¹⁸ See the CRU's 2022 decision (including the assessment framework used when making its determination) [here](#)

¹⁹ See the CRU's 2023 decision [here](#)

Appendix 2: UK Uncertainty Mechanisms

The Uncertainty Mechanism proposed by UÉ is similar to the mechanism utilised by water companies regulated by Ofwat, see section 3 for further details on the key characteristics.

On 19th December 2024, Ofwat published its PR24 final determinations. Every five years, Ofwat, the economic regulator, sets the price, investment and service package that customers receive, in what are called 'price reviews'. This process ensures that there is enough investment to deliver the improvements customers want, and that companies' plans are thoroughly scrutinised to ensure that they provide customers with value for money. Water companies in England and Wales submitted their business plans to Ofwat for PR24 (covering the period of April 2025 to April 2030) and Ofwat has made its final decisions on those business plans.

As part of its Risk and Return package²⁰ for the water sector, Ofwat expanded the coverage of uncertainty mechanisms for cost items where there is insufficient certainty in the efficient cost allowances for them to be included in the final determinations. They also provided additional scope in its In-period adjustments paper²¹, for revenue allowances to be adjusted in-period to provide additional funding for uncertain cost items.

Ofwat have introduced new in-period adjustments mechanisms for PR24 and as part of this approach they include Notified Items for each company. Notified Items refer to specific issues, the costs of which Ofwat have not allowed because they were too uncertain at the time of setting the final determinations. Ofwat set out five Notified Items for the PR24 period and they consider this approach mitigates uncertainties by allowing price controls to be changed in-period where needed.

Ofwat has a materiality threshold which must be met before an interim determination is triggered, that is if the impact on costs, of a Notified Item alone or in combination with other eligible items, meets the 10% percent materiality threshold, and each component is at least two percent of turnover. UK water utilities have access to available cash reserves and/or working capital facilities and are better equipped to accommodate unforeseen cost pressures than UÉ, therefore, a materiality threshold is appropriate. Interim determination applications must be submitted by 15 September each year and Ofwat then have three months to publish a final decision.

²⁰ See [here](#) for more details on Ofwat's PR24 final determination – aligning risk and reward.

²¹ See [here](#) for more details on Ofwat's PR24 final determination - In-period adjustments appendix

Appendix 3: Key features of the Electricity and Gas schemes in Ireland

Similar to the UK water and energy utilities, it should be noted that Irish electricity and gas network utilities have access to available cash reserves and/or working capital facilities and are better equipped than UÉ to accommodate unforeseen cost pressures. Specifically, the wider UÉ funding model, including a heavy reliance on annual exchequer funding, means UÉ has no available reserves to accommodate unforeseen cost pressures. This is an important differentiator when considering the applicability of other scheme's features to UÉ.

- **ESB Networks and EirGrid Price Review (PR) 5 (2021-2025)**

The CRU introduced an Agile Investment Framework (AIF) as part of PR5. This Framework is in place to accommodate uncertainty and the changing needs/demands of the electricity networks and market.

The Framework includes:

- A distribution Uncertainty Mechanism which releases revenues in response to identified needs of the system (e.g. for low carbon technology and new connections).
- A distribution Flexibility Mechanism which allows the reallocation of capital expenditure to operational expenditure to facilitate, for example, the roll out of new non-wire solutions which may replace or improve on traditional capital investment needs.
- Innovation and R&D Mechanism which provides revenues needed for innovation projects not captured through other agile mechanisms.
- A Transmission Monitoring Committee which will provide independent ongoing oversight for new initiatives.
- A Transmission Capex Adjustment Mechanism to allow for capex changes.

The electricity network companies must submit an annual AIF Report to the CRU by the end of April. The report should contain information on the trends and data that underly the AIF to provide forecasts on the expected use of the mechanisms. This information is intended to assist the CRU in forecasting likely changes in network tariffs and allow the CRU to plan for likely submissions under the AIF.

- **GNI Price Control (PC) 5 (2022-2027)**

The PC5 regulatory framework includes a package of three Uncertainty Mechanisms. They are the Biomethane Uncertainty Mechanism, the CNG Uncertainty Mechanism, and the Hydrogen Uncertainty Mechanism.

The Uncertainty Mechanisms are designed to allow GNI to obtain additional funding within the price control period. At the time of submitting the PC5 business plan it was unclear what activities would take place in these areas as the need and timing of such activities was still to be determined, but it was clear that investment would be likely be required to achieve government aims. Therefore, PC5 includes three Uncertainty Mechanisms to enable GNI to obtain additional funding should it demonstrate that the need has arisen.

GNI must submit an annual Uncertainty Mechanisms report by the end of March with the first report due in 2025. The Uncertainty Mechanisms report is to be published annually along with tariff determinations and should include a progress update on the use of all Uncertainty Mechanisms available within PC5 (Biomethane, CNG and Hydrogen). The progress update should contain information regarding outputs delivered, additional funding received or requested and any revenue impacts. A further section of the report should detail information regarding the potential future use of the three Uncertainty Mechanisms, to the extent that GNI has such information.