



## **Submission to the Commission for Energy Regulation**

### **Re: Interim and Enduring Non-Domestic Tariff Proposals 16<sup>th</sup> May 2014**

#### **Executive Summary**

Dublin Chamber welcomes the opportunity to contribute to this public consultation on Irish Water's submission to the CER entitled *Interim and Enduring Non-Domestic Tariff Proposals*. Our submission to this consultation is based on strong engagement with the many national and regional companies that compose our membership.<sup>1</sup>

The overriding issue for our members has been the need for greater clarity. While the priorities outlined by Irish Water in the consultation documents are ambitious and commendable, the absence of the relevant data makes it impossible to comment on plans for an enduring tariff framework.

At present, Dublin Chamber believes Irish Water does not have sufficient information to model the pricing structures against the cost of delivery for both water and waste water – let alone by user type. As such, the Chamber considers this consultation to be premature.

We recommend that no conclusion on the enduring tariff framework should be reached until such time as the Regulator and Irish Water have collected sufficient data on the system to build a robust price model.

To allow enough time to achieve this, Dublin Chamber is calling on Irish Water to extend the timeline proposed in the Consultation Paper.

We urge Irish Water to extend the current price freeze for non-domestic customers for the next ten years.

Furthermore, Dublin Chamber is seeking more details of the plans to upgrade Ireland's water infrastructure, and in particular how Irish Water intends to raise the required capital to fund this investment.

Finally, we ask that the terms of the agreement between Irish Water and the Regulator be clearly defined and made publicly available.

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<sup>1</sup> Dublin Chamber is the largest chamber of commerce in Ireland with over 1,300 member companies. It is the most representative and broadly-based business group in the Greater Dublin Area, providing representation and networking services. Its policy work focuses on developing the Dublin region's infrastructure & transport, promoting competitiveness and improving local governance. Dublin Chamber is also one of the oldest chambers of commerce in the world, tracing its origins back to 1782.

## **1. Vision**

Much of the current debate surrounding the development of a regulated water sector focusses on decisions to be made in the short-term. These considerations must not detract from the task of building a long term vision for water and wastewater services in Ireland. The Chamber's envisages a world-class water system for Ireland which is:

1. Internationally competitive in terms of price and quality;
2. Offers users and investors the stability and certainty they need; and
3. Boosts Ireland's global brand in terms of quality water availability and security.

The Chamber believes that this vision is achievable so long as the founding principles of the regulatory system do not build in competing objectives.

## **2. Extension of Timeframe**

We appreciate that since its incorporation in July 2013, Irish Water has worked to build a strong understanding of water services in Ireland. In January 2014, forty-four water billing authorities passed on their responsibilities to Irish Water. These are the first steps in a long process which will see the amalgamation of water and wastewater services under one national service provider.

The speed with which these changes were implemented is to be applauded, but the achievements to date should not give a false sense of what is possible in the short term.

The priorities of Irish Water outlined in the Consultation Paper (such as equity, cost recovery, stability etc.) are in line with international best practice. However, Dublin Chamber believes that the proposed timeline, detailed below, is too short for Irish Water to achieve its stated aims.

- July 2014 – Data migration from Local Authorities begins
- October 2014 – Charges introduced for domestic customers
- January 2015 – Completion of data migration process
- January 2015 – Charges introduced for the domestic portion of mixed-use customers
- End 2015 – Review of price freeze for non-domestic customers

This timeline would perhaps be suitable for the handover of a more developed water sector. At present, metering for domestic customers is far from complete and data migration from the Local Authorities is not scheduled to begin until July 2014. Until these processes are complete, Irish Water will not have sufficient information on:

- the quantity of non-domestic users;
- the consumption patterns of non-domestic users;
- the proportion of total costs to be recouped from non-domestic users;
- the current picture with regard to revenue recovery from non-domestic users.

Given the complexity of the former billing arrangements and data collection systems, there is no guarantee that the data migration process will be complete by the proposed deadline of January 2015.

Even when completed, the migration process may not provide sufficient information due to lack of uniformity in the data and expected gaps therein.

Furthermore, it is imperative that sufficient time is allocated to developing metrics for pricing Irish Water's services. These metrics should be used to show taxpayers how they have benefited from efficiency and other gains achieved from the establishment of Ireland's single water utility. To date there has been no explanation of how Irish Water's priorities are to be achieved, measured and evaluated.

Dublin Chamber is broadly in favour of the interim arrangements proposed in the *Interim and Enduring Non-Domestic Tariff Proposals* Consultation Paper, which imply virtually no change to the status quo for non-domestic customers until at least the end of 2015. However, it is clear that an extended timeframe will be needed to establish a fair and equitable enduring tariff framework.

### **3. Determining the Cost of Providing Water**

Robust planning is the foundation of all successful companies. In particular, a clear understanding of costs and assets is crucial, especially in the case of natural monopolies such as water services.

Dublin Chamber was therefore surprised and confused by the recent Government proposal that prices for domestic users would be set before the cost of providing water to all users had been clearly established. Naming prices before a full cost model has been prepared represents poor business planning and does not inspire investor confidence. This is particularly concerning as Irish Water intends to raise investment capital on the bond markets.

In the Consultation Paper, Irish Water has expressed its intention to undertake "comprehensive due diligence" in order to prepare "detailed cost analyses to understand the cost drivers, both between the domestic and non-domestic sectors and within the non-domestic sector".

Dublin Chamber welcomes this intention and urges Irish Water to ensure that determining the cost of water provision to all customers is its number one priority. It is impossible to comment on an enduring tariff framework until such analyses have been prepared and the cost (both OpEx and CapEx) of delivering water and waste water for domestic and non-domestic users has been made available for public scrutiny. Fully transparent cost models will allow for a meaningful engagement with future tariff consultations.

If domestic prices are set without this information, there may be a significant shortfall once the true cost picture for water provision in Ireland becomes clear, and Dublin Chamber is deeply concerned that businesses would be asked to fill this gap.

#### **4. Ten-Year Price Freeze**

Irish Water has stated that a price freeze for non-domestic customers will apply until “at least” the end of 2015. According to the Consultation Paper, the freeze will:

- provide certainty for business;
- allow time for engagement with the non-domestic sector and other stakeholders;
- allow an adjustment period for those customers whose tariffs will increase.

Dublin Chamber fully welcomes this proposal and agrees that the price freeze would achieve the above aims. However, we call on Irish Water to extend this price freeze for non-domestic customers for the next ten years.

A commitment to a ten-year price freeze would provide a degree of stability for Irish business. The Exchequer has promised it will continue its subvention of Irish Water until 2016, but there is total uncertainty on the arrangements that will follow. A guaranteed ten-year price freeze for business would be an assurance for companies and investors alike.

Furthermore, a price-freeze would allow Irish Water sufficient time to achieve its stated aim of engaging extensively with non-domestic customers to establish a fair and equitable enduring tariff framework.

It must also be reminded that Ireland is the fifth most expensive location out of sixteen benchmarked countries for industrial water costs.<sup>2</sup> The price of water for non-domestic customers in Ireland is already uncompetitive, and must not be raised.

Similarly, the operational expenditure for water services in Ireland is currently “significantly higher than the UK comparators”, according to the *Irish Water: Phase 1 Report* compiled in 2011 by PwC. The Regulator has indicated that operational expenditure per connection could be 50 to 100 per cent higher in Ireland than in the UK. This expenditure impacts on the price of water provision in Ireland, and Irish Water must provide clarity on such issues before its tariff framework is finalised.

#### **5. Investment in Infrastructure**

Dublin Chamber welcomes Irish Water’s acknowledgement that “secure, reliable and affordable water services are critical to Irish business and to inward investment”. However, delivering this infrastructure and developing a world-class water system will require significant investment.

Irish Water’s submission to the Joint Oireachtas Committee on the Environment in January 2014 stated that the required upgrades to water services in Ireland would cost an estimated €10bn. In the recently published Capital Investment Plan 2014-2016, it was announced that Irish Water will be required to raise additional funding for its €1.8bn euro investment in badly-needed projects.

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<sup>2</sup> Costs of Doing Business in Ireland, National Competitiveness Council, 2014.

The Consultation Paper acknowledges that “it could be argued that it is inequitable to penalise certain customers for investment decisions made in the past”. Dublin Chamber fully agrees with this assessment, and believes businesses must not be left to foot the bill for decades of underinvestment in water services.

Dublin’s water supply currently operates just 1% ahead of demand (most capital cities in Europe have headroom of 15-20%), and it is estimated that up to 800 kilometres of Dublin’s water mains network are over 80 years old.<sup>3</sup>

The Government must make a capital investment commitment through the Exchequer, and provide the requisite funding to deliver necessary upgrades to Ireland’s water system.

It will take several years before the bond market would be an option for Irish Water, given that infrastructure must be improved to the point at which it would provide an adequate cash flow. High-quality, sustainable infrastructure is essential if Irish Water is to successfully raise funds on the private market.

## **6. Role of CER as regulator**

The role of the CER as regulator should be clearly defined and reflect international best practice in regulator / service provider arrangements.

At present, no water utility license has been issued by the CER to Irish Water. The details and conditions of the agreement between Government, the CER and Irish Water must be formally established and made publicly available. It is particularly important that the Irish water sector is comparable in its regulatory framework to other European countries whose water utilities are on the bond market. Regulatory comparability will provide assurance to potential bond investors in Irish Water.

The Regulator for water services in the UK, OfWat, serves as a useful example of best practice in this regard. Its role is clearly defined on its website and available for public scrutiny. OfWat is responsible for ensuring “that water companies provide household and business customers with a good quality service and value for money.” This implies:

- “limiting the prices companies can charge and making sure that bills are kept as low as possible;
- monitoring the companies’ performance and taking action, including enforcement, to protect consumers’ interests;
- setting the companies challenging efficiency targets;
- making sure the companies deliver the best for consumers and the environment in the long term;
- encouraging competition where it benefits consumers”.

Furthermore, as the economic regulator, OfWat makes its decisions independently of the Government.

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<sup>3</sup> Local Authorities within the Dublin Region - Dublin Region Watermains Rehabilitation Project.  
<http://www.watermainsrehab.com/index.php?page=faq#18>

## **Conclusion and Recommendations**

It is important to reiterate that Dublin Chamber is in favour of the interim arrangements proposed in the Consultation Paper. However, we believe that the original timeframes foisted upon the Regulator and Irish Water will create a weak foundation for the water sector. A longer lead time is required to carry out proper cost analysis and price modelling, with a view to delivering a world-class water system for Ireland.

To prevent irreparable damage to FDI & Irish businesses, as well as to Irish Water, Dublin Chamber is calling for an extension of the existing price freeze beyond 2016. This will provide certainty and stability for business and their investors.

Given the growing importance of water as a national competitive advantage, the Regulator should not only be looking at current operations and their efficiency but the design of operations in their totality. Target pricing should be employed to ensure that the price of water in Ireland is competitive in the global setting.

In the absence of this basic cost data, Dublin Chamber finds it impossible to recommend any decision on the principles and variables of the enduring tariff framework. The widespread availability of operational data, not the application of regulatory theory, will ensure meaningful engagement with the tariff consultation.