



Submission to the CRU on Irish Water's proposed Non-Domestic Tariff Framework

August 2018

1. Introduction

Dublin Chamber welcomes the opportunity to make this submission to the Commission for Regulation of Utilities (CRU) in respect of the stakeholder consultation on Irish Water's proposals for a new non-domestic tariff framework.¹ We acknowledge the challenges facing the CRU in its deliberations and thank the CRU for its ongoing regard for business concerns.

As the representative body for businesses in the Greater Dublin Area (GDA), Dublin Chamber is the largest Chamber of Commerce in Ireland. The Chamber's cross-sectoral membership base comprises 1,300 firms, spanning the spectrum from micro-enterprises to multinationals, and supporting 300,000 jobs nationally. This gives the Chamber a unique insight into the needs of businesses in the capital city region, and the commercial environment generally.

Dublin Chamber strongly supports greater investment in water infrastructure and acknowledges that adjustments to Irish Water's funding model may be required. However, the Chamber has serious reservations about the proposed non-domestic tariff framework and does not support the model in its current form. We take this opportunity to outline our concerns below, and request that the CRU take these into consideration in making its decision.

2. Cost Impact on Business

The foundation of Irish Water's proposed non-domestic tariff framework is a suggested increase in the proportion of water costs recovered from the non-domestic sector from 20% to 24%. This amounts to a significant 20% rise in costs paid by the business community. The basis for this proposal is not clear. While Irish Water has pointed to utility providers in the UK, for example, as context for its own proposal, Dublin Chamber is not persuaded of its rationale. Dublin Chamber notes that the proposed 20% rise would be borne by just half of firms, leading to a considerable concentration of the increased cost burden, which will be discussed further below.

¹ CRU Consultation Paper, CRU18114 Irish Water's Proposals for a new Non-Domestic Tariff Framework, <https://www.cru.ie/wp-content/uploads/2018/06/CRU18114-CRU-Consultation-Paper-Irish-Waters-Proposals-for-a-new-Non-Domestic-Tariff-Framework.pdf>

Meanwhile, the level of cost recovered from the domestic sector will remain fixed for the foreseeable future. While Dublin Chamber acknowledges that this results from a Government decision and was not a policy independently determined by the CRU, the Chamber does not wish to give approval to a framework the preconditions of which are fundamentally unfair and unsustainable.

Dublin Chamber further notes the proposal for a Domestic Allowance for mixed-use connections, a measure designed principally to soften the impact of the proposed framework on the agricultural sector and farming community. In light of this sectoral consideration, and the absence of parallel plans for the domestic sector, the scale of price increases being proposed for a concentrated segment of the business community appears extraordinary. There is a perception in the business community that this anomaly owes more to political and electoral considerations than to a disinterested regard for equity or good policymaking.

Dublin Chamber notes that one of the CRU's strategic objectives is 'to ensure that prices charged are fair and reasonable' and 'to ensure that water prices are competitive'.² In this context, it is regrettable that competitiveness has not been included as a determining principle for the new non-domestic water tariff regime. Nonetheless, with the CRU's strategic objective in mind, Dublin Chamber argues that prices imposed upon customers must be proportionate to the costs that they impose on the utility provider.

It is apparent that a significant portion of Irish Water's costs arise from historic conditions including long-term underinvestment and mismanagement of Ireland's water network, and the management structures and various service level agreements that have been agreed with Local Authorities. These result from political decisions over many decades and were not imposed upon Irish Water by non-domestic users. Accordingly the CRU must ensure that non-domestic water users are not burdened with the costs that have resulted.

Finally, the Chamber is concerned about the potential impact of future infrastructure investments on business costs. Dublin Chamber recognises the urgent need for greater investment in Ireland's water infrastructure, with a particular focus on meeting the growing needs of the capital city region which is already experiencing capacity issues. However, in light of the fact the businesses are the only category of water user being considered with a view to increasing revenue generation, there is very serious concern that business costs could continue to swell indefinitely as long-term infrastructure investments are made and further cost recovery is required, unsupported by a complementary source of revenue. Clear assurance is needed on this point.

Dublin Chamber does not accept a 20% rise in the proportion of revenue collected from non-domestic users as being adequately justified or as being in the best interests of the business community, and is not persuaded that Irish Water's costs would be equitably distributed under the proposed framework. The Chamber also requires assurance regarding the impact of future infrastructure investments on non-domestic tariffs.

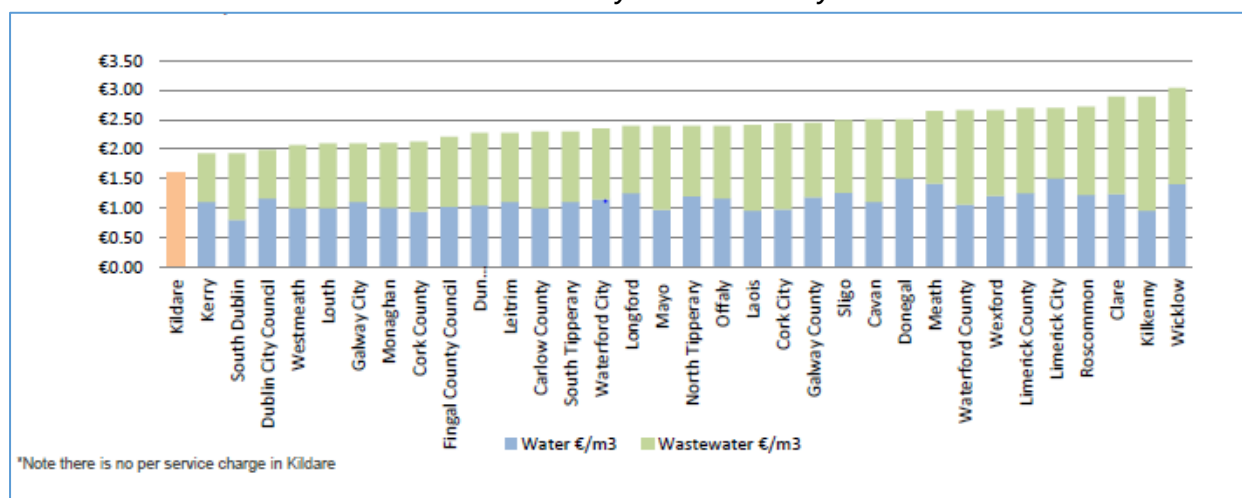
² CER Strategic Plan 2014-2018, p. 23, <https://www.cru.ie/wp-content/uploads/2014/07/CER14751-CER-Strategy-Plan-v11.pdf#page=25>

3. Cost Impact on Dublin

The Greater Dublin Area (GDA) is the engine of Ireland's economy and its main magnet for foreign direct investment, generating over half of GDP³ and providing around 40% of employment.⁴ It is relied upon to generate over half (59%) of personal income tax revenue and over two thirds (67%) of corporation tax revenue, funding infrastructure investments and public service programmes elsewhere in the country.⁵ The capital city is also the reception point for the overwhelming majority of Ireland's tourist population, with over two thirds (68%) of holidaymakers spending time in Dublin before travelling on to other parts of the country.⁶ The GDA plays a crucial role in Irish economic wellbeing and policies impacting upon its business cost base should be considered with great caution, with a view to preserving national economic competitiveness.

It is Dublin Chamber's position that the geographic basis of charging should be determined with a view to maintaining economic competitiveness, minimising business disruption, and ensuring equity, whereas the administrative convenience of the utility provider should be a secondary consideration. Under present arrangements, the non-domestic water tariffs imposed in Local Authorities within the GDA rank relatively well in comparison to other regions of Ireland that do not bear the same level of economic activity or face the same pressures on their business costs.

Table 1: Current Non-Domestic Water Tariffs by Local Authority



The differentials illustrated above in Table 1 reflect the heavy concentration of industrial and commercial activity in the GDA, which necessitates a competitive cost base.

³ CSO Statistical Release 22 March 2017, County Incomes & Regional GDP 2014, Table 9, GVA per Region at Current Market Prices (GDP), 2006-2014,

<http://www.cso.ie/en/releasesandpublications/er/cirgdp/countyincomesandregionalgdp2014/>

⁴ CSO QNHS Main Results, QNQ22: Persons aged 15 and over by NUTS 3 Regions, Quarter & Statistic,

<http://www.cso.ie/px/pxeirestat/Statire/SelectVarVal/Define.asp?maintable=QNQ22&PLanguage=0>

⁵ Revenue Net Receipts by County 2016, <http://www.revenue.ie/en/about/statistics/receipts-county.html>

⁶ Tourism Ireland, Facts & Figures 2016, p. 4,

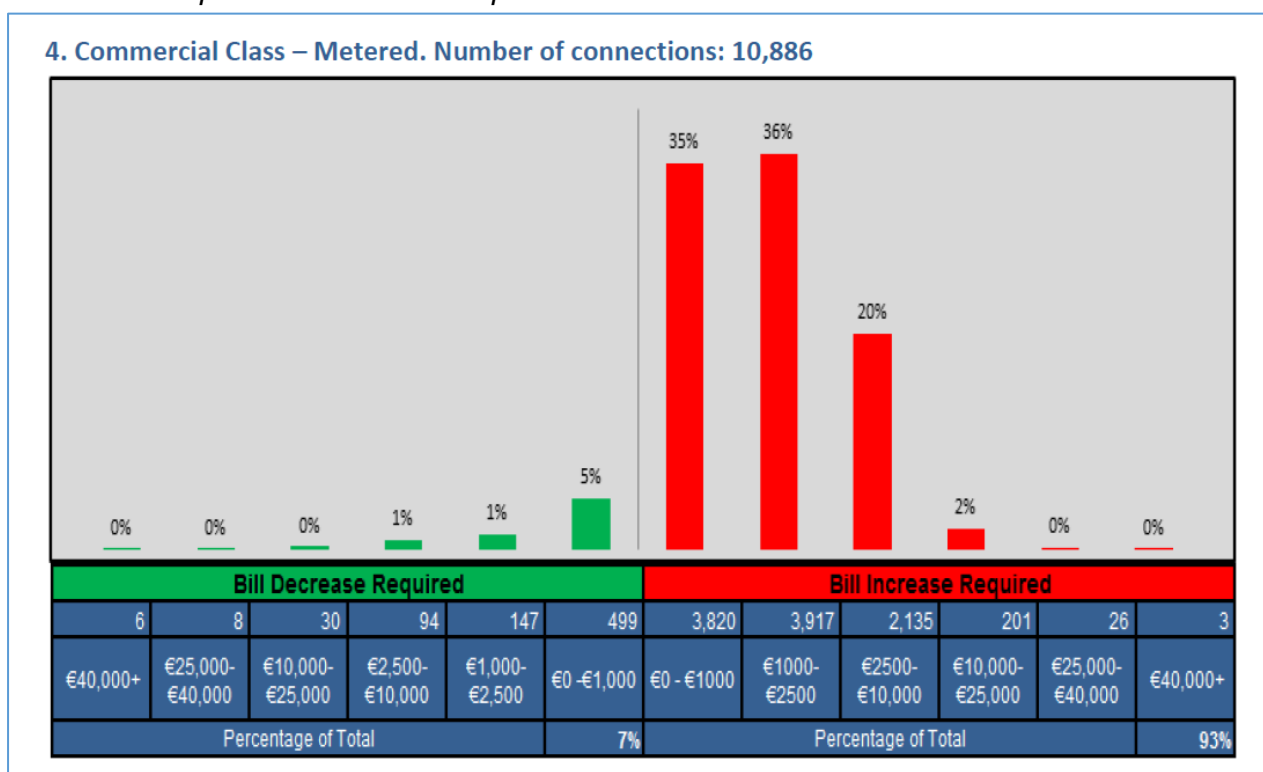
<https://www.tourismireland.com/TourismIreland/media/Tourism->

Dublin Chamber accepts annual consumption as a reasonable basis for Irish Water’s proposed customer classification system. However, while noting the fact that only about 12% of total non-domestic connections would face an increase of over €250 per annum under the proposals,⁷ the Chamber is concerned by Irish Water’s plans to shift the burden onto a narrow segment of highly productive industry which is disproportionately located in the GDA. The bio-pharma, food and beverage manufacturing, tourism and hospitality, and bar and restaurant sectors, for example, are all particularly threatened.

Dublin Chamber notes that in the proposed commercial class, 93% of connections would face bill rises, with over a fifth (22%) facing annual rises of over €2500, as outlined below in Table 2. Customers falling into the industrial class would face an even more significant hit to their business margin, with 95% of such firms receiving bill increases, and almost three quarters (73%) facing increases of over €20,000 per annum, as illustrated in Table 3.

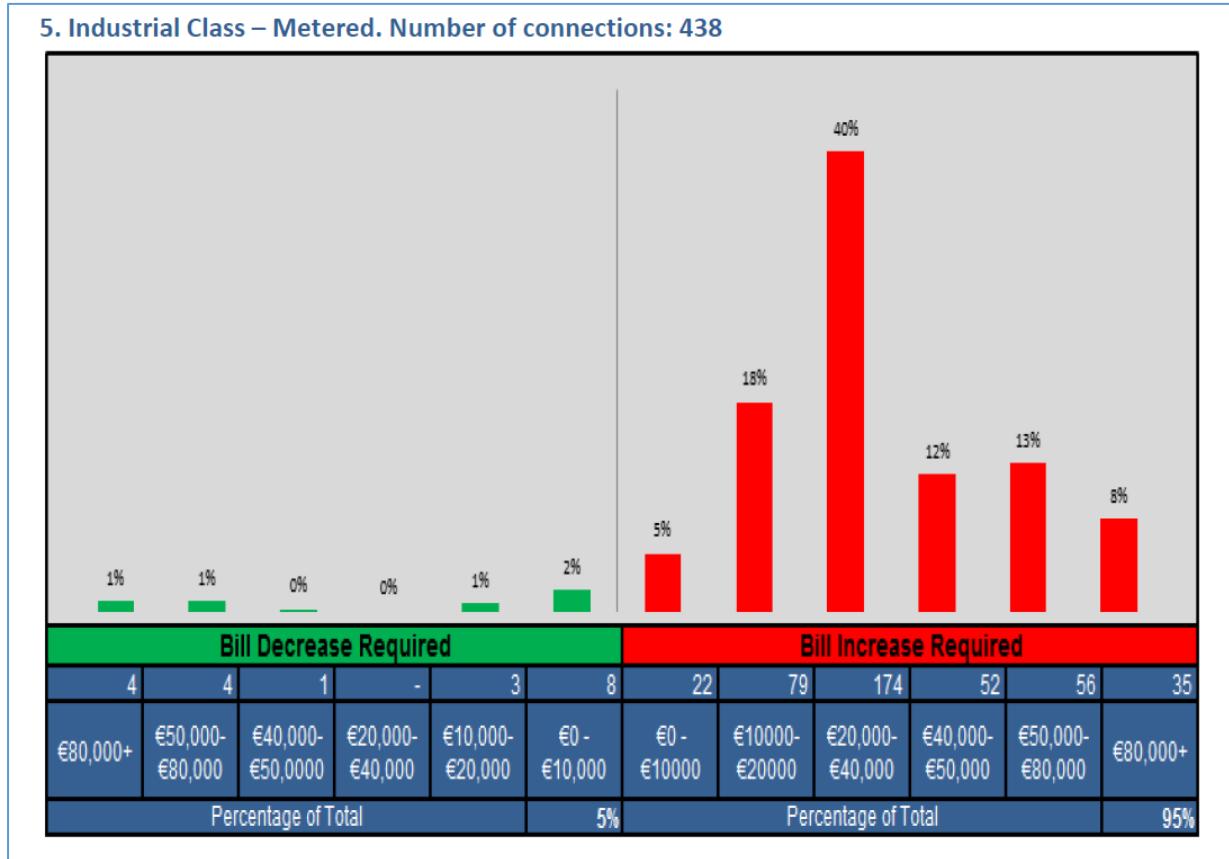
The Chamber must report that there is particular alarm in the capital city’s restaurant and hospitality sectors in relation to Irish Water’s proposals. Numerous prominent hotels have contacted Dublin Chamber in concern, facing hikes in the region of 40% over the coming years. The impact of any new tariff framework on Ireland’s tourist industry should be closely considered. With hotels reportedly facing a VAT increase in the next national budget, the implementation of Irish Water’s proposals would represent a very significant added financial burden.

Table 2: Bill Impact of Irish Water Proposals on Commercial Class



⁷ Irish Water, Submission to the CRU: Non-Domestic Tariff Design Review and Enduring Proposals, p. 81, <https://www.cru.ie/wp-content/uploads/2018/06/CRU18115-Non-Domestic-Tariff-Design-Review-and-Enduring-Proposals-%E2%80%93-Irish-Water-submission-to-the-CRU.pdf#page=83>

Table 3: Bill Impact of Irish Water Proposals on Industrial Class



It must be recognised that the impact of Irish Water proposals on different user categories cannot be considered in isolation from their inherent regional impact. The increased share of the burden on non-domestic water users will be felt particularly strongly in the capital and its environs where the highest proportion of businesses are located.

Overall, the GDA is home to 43% of active enterprises in the State. When small and micro-sized firms are excluded, the proportion of enterprises located in the GDA grows further; the region is home to over half (55%) of all medium-sized and larger enterprises in the State. Finally, examining the larger firm cohort in isolation, the concentration of affected businesses in Dublin becomes even more evident. The GDA is home to almost two thirds (65%) of all enterprises employing 250 staff or more in the State.⁸ This clearly suggests that the adverse impact on the capital city region of the harmonised tariff framework will actually be compounded, rather than mitigated, by the proposed distribution of the increased business cost burden among different user categories.

Information supplied by Irish Water at the request of Dublin Chamber reveals that the impact of the proposed changes on the average user in Dublin, where the highest proportion of medium and large businesses are located, will be greater than would be suggested from a reading of Irish Water’s submission to the CRU, which focusses on national figures.

⁸ CSO, Business Demography 2016, Table BRA08: Business Demography NACE by Employment Size, County, Year, and Statistic, <https://www.cso.ie/px/pxeirestat/Statire/SelectVarVal/Define.asp?maintable=BRA08&PLanguage=0>

Table 4: Estimated Impact of non-domestic tariff design proposals in Dublin⁹

Customer Class	No. of Connections	Average usage (m ³)	Average current bill	Average future bill	Difference
Standard (<1,000m ³)	19,221	180	€520	€575	€55
Commercial (1,000 – 19,999m ³)	2,905	3,463	€7,137	€9,975	€2,838

As detailed above in Table 4, the proposed regime would in fact lead to average price increases of 10% among Dublin firms in the Standard user category, and average price increases of 40% for Dublin firms in the Commercial user category. While Dublin Chamber does not have comparable information for the Industrial user category, it seems likely on the basis of the figures discussed that Industrial class customers in Dublin would face larger proportional increases than elsewhere in Ireland.

Ireland's capital city region would be disproportionately affected by Irish Water's current proposals in an adverse manner, potentially undermining national economic competitiveness. Dublin Chamber does not agree with Irish Water's proposal to set tariffs on a national geographic basis as outlined in its submission to the CRU and suggests that closer consideration could be given to a system of regional tariffs derived from localised cost drivers.

4. Practical Issues

Dublin Chamber takes this opportunity to state its view on a number of other elements of Irish Water's proposals.

Tariff Structure: For a combined standing and volumetric charging system to be credible, it is essential that the standing charge is fixed solely and exclusively to cover the maintenance costs and administrative costs associated with billing. This would ensure equity and encourage efficient and ecologically sound water usage. Businesses of all sizes must be able to reduce their bills by taking water usage reduction measures.

Billing: To minimise inconvenience and avoid confusion, Dublin Chamber recommends that non-domestic water users with multiple connections should receive one bill from Irish Water that covers the combined costs associated with all connections.

Transition Period & 10% Cap: Dublin Chamber concurs with the CRU that it would be more customer friendly if the 10% cap on annual bill increases for firms that are facing major adverse bill changes should be imposed automatically rather than require engagement of the affected company with Irish Water through an application process.

⁹ Irish Water data, privately supplied to Dublin Chamber. The analysis is based on metered non-domestic connections in the Dublin region, based on indicative rates and 2015 data. It reflects Irish Water's current proposals which are subject to decision by the Commission for the Regulation of Utilities (CRU).