



Submission to the Commission for Energy Regulation

Water Charges Plan Consultation

Ref: CER14/366

28th August 2014

Executive Summary

Dublin Chamber welcomes the opportunity to contribute to the CER's Water Charges Plan Consultation. This submission builds on our response to the *Interim and Enduring Non-Domestic Tariff Proposals* paper, which was submitted to the CER in May 2014. It has been developed further based on engagement with the many national and regional companies that compose our membership.¹

The overriding issue for our members has been the need for greater clarity and certainty. The Chamber supports the CER in its decision to refrain from developing an enduring tariff framework for non-domestic customers in the absence of the relevant data.

However, the CER must provide certainty on how long the current charging system will apply. Businesses require sufficient time before a new charging system is introduced in order to make any necessary adjustments to their financial planning and ensure the smoothest possible transition.

The Chamber is concerned that the timeline proposed for the data migration process (Jan 2015) is unrealistic. We welcome the proposal to publish a timeline in Q4 2014.

A more long-term perspective on capital projects is needed to remedy historic underinvestment in Ireland's water and wastewater services. Dublin Chamber recommends that there be no reduction in the proposed funding of the Capital Investment Plan (CIP) and urges Irish Water to provide more detail on its plans for securing funding on the markets. The Chamber also welcomes the proposal to establish an Output Monitoring Group.

¹ 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 & improving local governance. Dublin Chamber is also one of the oldest chambers of commerce in the world, tracing its origins back to 1782.

1. Non-domestic Tariff Arrangements

1. Introduction

As stated in the Water Charges Plan Consultation Paper, at present “robust, comprehensive information regarding the non-domestic water sector, including current tariff arrangements, is not available”. This information is expected to become publicly available following the completion of the data migration project scheduled for January 2015.

The Regulator has proposed that current charging arrangements for the non-domestic sector will continue to apply “for the foreseeable future” and “an enduring tariff framework will be established as soon as practical”.

2. Data Migration Plan

In our response to Phase 1 of the Water Charges Plan Consultation in May 2014, Dublin Chamber raised concerns about the proposed timeline for the data migration project:

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.

These concerns still stand. Prices for non-domestic customers cannot be set before an appropriate cost model has been prepared using the historic data from Local Authorities.

The CER has proposed to publish a timeline for the establishment of an enduring tariff framework by the end of Q4 2014. Dublin Chamber welcomes this commitment, and urges that the timeframe established would be realistic and transparent including details of progress achieved to date. This timeline should be published as soon as possible to provide businesses with the maximum amount of notice and a degree of certainty on the timing of the introduction of the new charging arrangements.

Furthermore, the Chamber welcomes the CER’s proposal to publish Irish Water’s data migration plan and to monitor Irish Water’s progress against this plan. The Chamber looks forward to fully engaging with future Consultation processes once the data from Local Authorities becomes available.

- Dublin Chamber is concerned that the proposed timeline (Jan 2015) is unrealistic.
- We welcome the proposal to publish a timeline for the plan with key milestones achieved.

3. Goal of cost recovery

The aim of achieving full cost recovery for water services (without profit) is part of Ireland's national water policy and the EU Water Framework Directive. It is expected that the data migration process will reveal the cost of providing water to non-domestic customers, allowing Irish Water to build a pricing model which enables full cost recovery.

However, it is worth reminding that businesses in Dublin City are already covering the cost of their water services. Following several annual increases in water charges, Dublin City Council announced that the goal of full cost recovery was achieved in 2013.² The 2013 cost-reflective charges will continue to apply until an enduring tariff framework is in place.

Dublin Chamber is concerned that charges to non-domestic customers will be raised beyond the point of cost recovery. Businesses have paid increased water charges under the assurance that the cost recovery was the ultimate goal. As this has been achieved, no increase to water charges can be justified.

A regional approach to charging may be appropriate to ensure that non-domestic customers across Ireland are paying cost-reflective charges. It is inequitable that charges should increase for those who are already at that level.

➤ Businesses in Dublin City are already paying the full cost of their water services. No increase can be justified.

4. Lack of Certainty & Sufficient Notice

Irish Water originally proposed to retain non-domestic charging arrangements "until at least the end of 2015". Dublin Chamber welcomes the CER's proposal to amend this timeframe to "the foreseeable future", which would seem to indicate a longer period. However, it is worth clarifying this point for businesses.

The difference in wording is important for businesses as they prepare and arrange their finances in advance of the introduction of a new charging scheme (medium-term of 5 to 10 years, and long-term of 20 or more). Certainty on future costs is the cornerstone of good financial planning, and companies must have sufficient notice regarding changes to their cost base.

The CER has further proposed that any new non-domestic contracts entered into from 1st October 2014 shall provide for the fact that new tariff arrangements "shall be approved by the CER in due course and shall apply from the appropriate date as determined by the CER". Under such contracts, businesses would be subject to price changes at any time. A sufficient period of time must be provided in price adjustments (i.e. 'glide path') and this must be recognised in the revised proposal.

² "This process has now concluded and the charge set for 2013 meets full cost.", *Dublin City Council Adopted Budget 2013*, p.6

- Dublin Chamber urges the CER to provide clarity on how long the current charges will remain in place. This will ensure businesses have sufficient notice to prepare for any changes.

5. Large Water Users Group

The Chamber also considers that the creation of a Large Water Users Group would be useful in this process of engaging with the non-domestic sector.

2. Capital Expenditure and Capital Investment Programme

1. Introduction

Significant investment is required to improve Irish water services. The 2011 PwC report pointed to a “backlog of approximately €500 million for essential projects” in Ireland.³ The Greater Dublin Area has headroom of just 2%, with demand projected to increase 45% by 2031, from the current 550 megalitres per day to 800 megalitres per day.

Irish Water has proposed a capital expenditure budget of €2.5 billion to 2016 which allocates funding for metering and capital maintenance, water, wastewater and other minor projects. The CER has recognised the “demonstrable need” for the projects proposed in Irish Water’s Capital Investment Plan (CIP), yet is requesting yearly reductions of 7% on all non-committed capital expenditure.

Dublin Chamber is concerned by this proposal to reduce the funding for capital projects. While it is important that Irish Water is efficient in its spending, reductions should not be sought at the expense of core objectives or operational efficiency gains.

2. Prioritisation and the need for long-term vision

Irish Water has developed a system of prioritisation to ensure that the most-needed projects will be scheduled first. However, it is clear that “quick win” projects will be prioritised– that is, those that can achieve compliance or improve services in the shortest time and at the lowest cost.

The cost-saving approach is understandable in the context of very limited resources, but ultimately it will not address the acute need for large-scale capital projects to bring Ireland’s water services up to standard.

Dublin Chamber is calling for a long-term perspective to capital investment in water services and is in favour of the establishment of an Output Monitoring Group. This Group should ensure that priority projects such as the Dublin Water Supply Project reach completion as quickly as possible, and are protected in the event of a capital constraint.

³ *Irish Water: Phase 1 Report*, PwC, 2011

Furthermore, the Group should strive to provide transparency and value for money for Irish Water's customers. Details about capital projects should be publicly available, as well as the benefits such projects aim to achieve (e.g. improved security of supply, drinking water quality etc.).

- Minor or "quick-win" projects will not ultimately meet Ireland's water infrastructure needs. A long-term perspective on capital investment is needed.
- Dublin Chamber welcomes the proposal to establish an Output Monitoring Group.

3. CER's proposed reduction to capital expenditure

The CER is seeking an annual average reduction of 7% in Irish Water's non-committed capital expenditure costs for 2015 and 2016.⁴ This request is made on the basis that Irish Water's Capital Investment Programme is larger than UK comparators on a per population served basis.

Dublin Chamber recommends that there be no reduction in the capital spend for 2014-16, given the "demonstrable need" for projects. While it may be appropriate to compare Irish Water to UK utilities for other variables, Dublin Chamber believes that using the UK as a comparator in the area of capital spending does not capture the historic underinvestment in water services in Ireland.

As explained above, investment in water services in Ireland is essential and overdue. As such, no reduction in the budget for capital projects can be justified. If Irish Water is unable to fund its capital expenditure alone, the Exchequer must make funding available for the completion of badly-needed projects.

- Dublin Chamber recommends that there be no reduction in the capital spend for 2014-16.

4. Raising sufficient funding for capital expenditure

According to the Consultation Paper, "there is a level of uncertainty regarding the amount of capital funding available to Irish Water...Irish Water expects to secure debt financing to deliver the remainder of its plan; but as a recently formed utility there is a level of uncertainty over how much finance it will be able to raise".

The CER has proposed to allow only 75% of funding for capital investment *ex ante*. The remaining 25% of funding is expected to be raised Irish Water via debt financing that would be paid back following the next revenue review. It is clear that Ireland's water services require the total investment figure (i.e. 100% of the €2 billion). However,

⁴ "We are of the view that Irish Water can deliver the [Capital Investment] programme at a lower cost than stated.", *Water Charges Plan Consultation*, CER14/366, p.17

Dublin Chamber welcomes the proposal to only allow 75% *ex ante* as this could prevent capex funds being raised via increased charges to customers.

However, on the basis of the figures provided, it is unclear if Irish Water intends to raise the remaining 25% of funding on the international markets. Irish Water must provide more detail on its plans for securing this essential funding. If they are unable to do so the Exchequer must continue a capital commitment to ensure Ireland's water services into the future.

Furthermore, it has not been made clear how capital spend will impact on and create efficiencies in Irish Water's operational expenditure. Dublin Chamber is calling for clarity on how capital projects will generate efficiencies in Irish Water's operation, and whether returns from these efficiencies will be passed on to customers or reinvested in further capital projects.

- Dublin Chamber welcomes the proposal to only allow 75% of capital funding *ex ante*.
- Irish Water must provide more detail on its plans for securing capex funding.
- Dublin Chamber is calling for clarity on how capital projects will generate operational efficiencies.

3. Operational expenditure

1. Problems with using UK as comparator

In order to benchmark Irish Water's proposed operational expenditure, the Regulator compared these costs to those of UK water and sewerage companies. The conclusion reached was that "the CER ...considers that Irish Water's costs are high."

Dublin Chamber is concerned that using UK water utilities as a comparator may not adequately account for the particularities of the Irish system.

Irish Water has a national remit, tasked with providing water and waste water services to around 4.5 million people in Ireland. Water utilities in Scotland and Wales serve similar populations, and are thus identified as useful comparators. However it is important to note the high concentration of Ireland's population in the Greater Dublin Area versus the rest of the country. This represents a unique challenge in the provision of high quality water services to Ireland's population.

As previously mentioned, investment in Irish water services to date has been insufficient, averaging about €550 million per year.⁵ When water services were privatised in the UK in the late 1980s, approximately £2 billion was being invested annually in English and Welsh water services.⁶ Thus, at the time of privatisation, water services in

⁵ *Irish Water: Phase 1 Report, PwC, 2011*

⁶ *The Development of the water industry in England and Wales, OfWat and Defra Report, 2006* p.76 http://www.ofwat.gov.uk/publications/commissioned/rpt_com_devwatindust270106.pdf

the UK were arguably in better shape than they currently are in Ireland. This could explain why Irish Water's start-up costs are higher than UK utilities at comparable stages. As such, the 7% annual efficiencies proposed by the CER may be excessive, and could hinder Irish Water in its goal of becoming a High Performing Utility.

Dublin Chamber welcomes the €2 million innovation fund to encourage research and innovation projects to address issues across the water network. It is important that the tendering process for these funds follow procurement best practices, and is open and accessible to Irish SMEs.⁷

Consultation Paper – Reference Questions

Q1. Do you agree with CER's proposed treatment of IW's establishment and pre Q4 2014 incremental operating costs? If not, please specify areas that you feel should be treated differently and how?

- See Section 3.1

Q2. Are there any other methods to evaluate IW's proposed capital expenditure that you feel would be more appropriate and why?

Q3. Do you agree with the CER's proposals for IW's capital expenditure? If not, please identify specific areas that should be treated differently and outline your reasoning.

- See Section 2.3

Q4. Do you agree with IW's approach to prioritisation? If not, please set out your views on an alternative approach to this matter.

Q5. Do you agree with the need for an outputs monitoring group which will provide a forum for considering investment priorities, monitoring IWs performance, and holding IW to account in relation to capital expenditure?

Q6. Do you agree with the need for further consultation on the approach to monitoring the delivery of capital projects?

- See Section 2.2

Q7. Are there any other methods to evaluate IW's proposed operating expenditure that you feel would be more appropriate and why?

Q8. Do you agree with the CER's proposals for IW's operating expenditure? If not, please identify specific areas that should be treated differently and outline your reasoning.

- See Section 3.1

Q34. Do you agree with IW's proposals regarding non-domestic water and wastewater charges? If not, please set out reasons for your position and propose alternatives where possible.

Q35. Do you agree with the CER's views regarding IW's proposals? If not, please set out the reasons for your position and propose alternatives where possible.

- See Section 1.1 and 1.2

⁷ See Chamber analysis in [Are Tenders on your Radar?](#) report.