



**SUBMISSION TO THE COMMISSION FOR REGULATION OF
UTILITIES ON
IRISH WATER'S PROPOSED NON-DOMESTIC TARIFF
FRAMEWORK PROPOSALS**

AUGUST 2018



Introduction to An Fóram Uisce

An Fóram Uisce (the Water Forum) was established in June 2018 in accordance with the provisions of Part 5 of the Water Services Act 2017. An Fóram is the only statutory body representative of all stakeholders with an interest in the quality of Ireland's water bodies. An Fóram consists of 30 members including representatives from a wide range of organisations with direct connections to issues relating to water quality and also public water consumers. Approximately 50 different organisations were involved in the nomination of members.

An Fóram's main concern in relation to the provision of drinking water is that the citizens and businesses of Ireland should have access to safe, potable drinking water supplies and in relation to waste water, that all services are provided and maintained in a manner that safeguards public health and environmental well being. The cost of access to both services, and their on-going service provision, should be based on an economically reasonable, fair and transparent basis.

Irish Water's Proposed Non-Domestic Tariff Framework Proposals.

An Fóram notes its role in relation to the CRU consultation requirements in accordance with the provisions contained in the Water Services Act 2017. An Fóram received a presentation from the CRU on the proposed policy at a special meeting held on the 26th July last during which a number of elements of the proposed framework was discussed. It is understood that this is the first consultation in relation to this issue and a further two consultations will take place between now and mid 2019. An Fóram would welcome on-going consultation with the CRU and Irish Water during this process.

The following summarises the observations of the members of An Fóram and concerns that have been raised.

A. Proposals within the consultation document.

An Fóram notes that there are two over-arching proposals contained in this consultation - Revenue rebalancing and Tariff Harmonisation. Within An Fóram, there are some concerns that both issues are being dealt with in the context of one consultation proposal, having

regard to the complexity of the issues involved and the challenges in terms of fully advising and engaging with those customers who will be affected once the final tariff framework is fixed. Furthermore there are concerns that the implementation of the new tariffs which will comprise of the revenue rebalancing and tariff harmonisation in one step may have a very negative financial impact on those non-domestic customers who are most affected by the changes. In this regard, it was noted that if cost increases affect only 50% of customers, a small proportion of customers will carry most of the burden of that increase which, we understand, may be in the region of €40 million. It is further noted that there are transitional arrangements proposed which may assist in this regard.

B. Principles

An Fóram notes and concurs with the principles underpinning the proposed changes as specified by the CRU, as follows:

- equity and no undue discrimination;
- efficiency in the use of water services;
- cost reflectivity;
- cost recovery;
- stability and simplicity.

While An Fóram has a primary role in relation to the customers of Irish Water, it is also charged with responsibilities in terms of the Water Framework Directive and the River Basin Management Plan 2018 – 2021. Having regard to the principles within that Plan in terms of protecting and restoring the quality of our waters and equally the efficient use of our resources, An Fóram proposes a further principle – namely that of encouraging conservation and environmentally sustainable behaviour in the context of water usage and effluent discharge practices. Such a principle would also assist the effective performance of Irish Water by reducing the demands on its services and thus the cost implications (opex and capex) associated with same.

C. The basis for charging.

An Fóram notes the proposal to place all charges on a national basis. In understanding the reasoning for same, it is noted that the local democratic element of the charging regime had, in the past, acted as a lever by Local Authorities for attracting and retaining development locally. With the harmonisation of the charges, this leverage is removed and this may lead to consequences in terms of balanced and sustainable regional development. An Fóram has a concern with regard to supporting regional development in so far as it relates and is relevant to protecting water quality and developing water services. However, An Fóram also understands the importance, from a customer point of view, of fair and equitable charging, regardless of geographical location.

D. Customer classification.

An Fóram noted the proposal by Irish Water to have three customer classes based on annual consumption–

- standard (<1,000 m³);
- commercial (>1,000 to <20,000 m³) and
- industrial (>20,000 m³).

An Fóram supports the use of consumption as the basis for charging and this accords with previously stated concerns in relation to water conservation and sustainability in terms of effluent discharges. However, in relation to the classifications, there are a number of observations. Firstly, in the interest of simplicity and clarity, we are suggesting that the titles of classifications be changed as they are somewhat misleading – they are based on volume and not activity type and their titles should reflect same (e.g. low, medium and high).

Secondly, we would re-iterate a concern expressed by the CRU with regard to lack of clarity concerning the basis for the three classifications in terms of under 1,000 m³, 1,000m³ to 19,999 m³ and above 20,000m³. These categorisations have huge implications for many of the customers and should be better explained. We are particularly concerned with the range in the commercial category and feel at the very minimum that this should be divided further, perhaps into two separate classifications.

Of further concern is the classification by Irish Water of publicly sourced Group Water Schemes as non-domestic customers. It is understood that while these schemes are, in many instances, connected into the Irish Water supply via a bulk meter, they are mostly domestic or mixed use connections with very few, if any, non-domestic customers. Accordingly, their classification as non- domestic is largely incorrect and it would be best practice to re-classify.

E. Cost allocation.

An Fóram welcomes the fact that this is the first opportunity to evaluate the national cost of providing water and waste water services to domestic and non-domestic customers. Clearly the metrics of cost allocation are inherently complex and those finally selected will determine the ultimate outcome. An Fóram notes the current proposals of Irish Water to allocate the charge to the non-domestic customers of 24% of total costs. This is not an insignificant redistribution. Clearly it will result in substantial cost increase to some commercial customers although it is recognised that around 50% of these customer will experience cost reductions. There has been some debate within An Fóram as to the relative weighting accorded to the various cost drivers in the proposed re-allocation. An Fóram recognises that individual stakeholder members will have differing or even conflicting views

on the model and considers it appropriate that any issues in this regard will be raised directly by those stakeholders with the CRU and Irish Water.

Notwithstanding this, in assessing the relative weighting of different cost drivers, An Fóram considers that an agreed figure for the unit cost of water be the starting point – e.g. the cost per litre.

Given such a starting point, the cost to the customer should be a combination of the standing charge together with the volumetric charge arrived at (volume consumed as a multiple of the unit cost). Within such an approach, provision could be made for scaling charges based on use or for the relative additional cost of supplying domestic as opposed to commercial users.

F. Tariff structure

An Fóram notes that the following are contained in the proposals by Irish Water:

1. Tariffs to be applied on a per connection basis;
2. Separate tariffs to be applied per services (water and wastewater) for all connections;
3. For metered tariffs – two elements applied – fixed (standing charge) and variable (volumetric) charge;
4. A single, fixed flat charge per service to all unmetered connections and
5. Application of a national domestic allowance for mixed use connections.

1. Application of tariffs on a per connection basis:

An Fóram notes and agrees with this proposal, having regard to the issues addressed by the CRU in this regard.

2. Separate tariffs to be applied per services (water and wastewater) for all connections:

An Fóram concurs with this proposal noting the CRU's comments with regard to same, particularly in relation to the potential offsetting of inefficient usage should services be combined.

3. Elements in relation to metered charges – fixed (standing charge) and variable (volumetric) charge:

An Fóram notes and agrees with the CRU observations that any decision regarding the relative assignment of costs should also have regard to the implications for customers in terms of incentivising efficient use of the resource, price stability and short term revenue certainty. It also agrees that applying more to the standing

charge will be counterproductive in terms of incentivising conservation and that care should be taken in this regard. Our submission in relation to the classifications is also of relevance in this regard.

4. A single, fixed flat charge per service to all unmetered connections:

An Fóram has concerns with regard to Irish Waters proposals in relation to unmetered connections and would support the observations made by the CRU in this regard. To re-state, it would agree to the request that Irish Water now review any accounts in this category where billing is high and either meter these connections or introduce assessed based charging arrangements for these connections.

Further, An Fóram would also recommend that all remaining services be metered as soon as is practicable and that where this is not physically possible, introduce assessed based charging arrangements.

5. Application of a national domestic allowance for mixed use connections:

An Fóram notes that this proposal seeks to parity of treatment in relation to the provisions of the Water Services Act 2017 in the context of this tariff framework.

G. Trade effluent charging arrangements

An Fóram notes that this current proposal does not provide for any change to the charges applied to Trade Effluent discharges due to the fact that Irish Water do not, at this point in time, have sufficient information to provide for same.

An Fóram understands that proposals will be forthcoming by 2020 and would welcome progress in relation to same at the earliest possible time.

H. Transitioning customers.

An Fóram welcomes the transitioning arrangements but requests that all customers who will be affected by an increase in their bill be given timely information well in advance of the implementation of same so that they can fully understand the proposals and the impact on their bill. It is acknowledged that Irish Water currently has a business tariff calculator on their website to assist in this process but this needs to be highlighted and once clarity is brought to the final billing structure, pro forma invoices should be issued to all customers well in advance of the implementation of the changes. Finally, we agree with the CRU regarding the automatic application of the 10% capping facility as appropriate.

In welcoming these transition arrangements, An Fóram has a concern with regard to any potential loss of income to Irish Water during the transition process and how this loss of income might be made up – there is a concern within An Fóram that this may result in cross subsidisation and if so, whether this is considered to be appropriate.

I. Enduring arrangements

It is noted that the final approved proposals will be implemented from Q4 2019. Irish Water is proposing to set a tariff for each year (Q4 2019 to Q4 2022) and on to the end of 2024. It is further noted that there will be some adjustments each year during the transition process to reflect Irish Water's projections in relation to inflation and the growth in connections each year.

The CRU has stated that it may be simpler for customers if their enduring tariff (standing charge and volumetric charge) levels remain unchanged for the duration of the transition period.

As previously stated An Fóram has a concern with regard to any potential loss of income to Irish Water during the transition process and would re-iterate its concern should these proposals necessitate cross subsidisation and if so, whether this is considered to be appropriate.

Conclusion

An Fóram would like to thank the CRU for this opportunity to submit in relation to the proposed policy and hopes that its views will be of assistance in finalising same and is available to assist in any way it can in relation to this process.

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