

National Consumer Agency submission to the Commission for Energy Regulation “Economic regulatory framework for the public Irish water services sector”

About the National Consumer Agency

The National Consumer Agency (‘Agency’) is the statutory body established by the Irish Government to enforce consumer law and promote consumer rights. In March 2010, the responsibility for consumer personal finance information and education transferred from the Central Bank of Ireland to the Agency.

Introduction

The Agency welcomes the opportunity to submit comments to the Commission for Energy Regulation (‘CER’) in relation to the consultation: “Economic regulatory framework for the public Irish water services sector”¹. The Agency is committed to representing consumer interests by engaging constructively with the CER and other stakeholders in the water sector as the programme progresses and key decisions are made. Observations in this submission are restricted to high level comments on a number of key topics.

Customer Protection

With reference to the information paper², section 3.3 - The economic regulatory framework, the Agency notes:

“Similar to companies operating in the electricity and gas industry, it is expected that Irish Water will be issued with a utility licence by the CER and will have to abide by the conditions of its licence... the CER anticipates that it will be given powers to resolve disputes between Irish Water and its customer.”

¹ The consultation paper has been considered in conjunction with the Information Note “The CER and Water Regulation in Ireland” CER/13/245.

² CER/13/245.

The Agency believes that the above provisions are critical to ensure that Irish Water is appropriately regulated and consumers are adequately protected with an overarching goal to ensure that the long term benefits of the water program accrue to the end users and at the least possible cost.

It is assumed that the CER will shortly be in a position to detail a dispute resolution process and also the service standards under which Irish Water's performance will be monitored. It is furthermore assumed that under performance will have consequences for the utility. At a general level, the Agency notes that little detail is currently available as to how consumer protection will be implemented in practical terms within the economic regulatory framework proposed and would welcome early clarification in this regard.

Efficiency

One of the key reasons for moving from a system of 34 Water Service Authorities to a single entity is the purported savings which will accrue in terms of economies of scale. The Agency views the generation of efficiencies³, both in the initial set-up and long term operation, as key to the success of this initiative. If consumers can see that efficiencies are being made, it will no doubt also increase the acceptability of Irish Water, and the water charges incurred.

The treatment of operational expenditure and the careful management of same will clearly be a large influencing factor on the charges incurred by consumers. The Agency notes and agrees with the CER's view, as indicated throughout the consultation, that it will align its analysis and determination of Irish Water's operational expenditure to best international practice which should ensure that efficiency is central to the operation of Irish Water.

The Agency would appreciate more specific information as to how these efficiencies will be achieved in the context of the multi-year⁴ service level agreements ('SLAs') between Irish Water and the Water Service Authorities which the Agency understands are being put in place at present. This is particularly important as it is assumed that, at least, some element of allowable operating costs will be included. Specifically, the Agency would welcome additional information on the potential for future efficiencies and the long term view of where these efficiencies will ultimately be made.

³ It is also acknowledged that efficiencies must be sustainable in the long term to ensure that a high quality of service can be maintained in both the short and the long term.

⁴ General Scheme of the Water Services Bill (No. 2) 2013 – SLAs will run for an initial 12-year period, with reviews after two and seven years. [<http://www.environ.ie/en/Publications/Environment/Water/FileDownload,33892,en.pdf>]

In a monopoly environment there can be inherent risk that efficiencies will not be achieved and therefore in this context, the CER's role to essentially act as a proxy for competition is all the more important. As above, ensuring that the regulator has the appropriate powers and resources to fulfil this role will be critical to its success or otherwise.

Transparency/Understanding

For consumers to adjust positively to the new water charges regime they will need to easily understand and see what their usage costs are and how revenue is being spent, be it investment, infrastructure, leakage reduction etc. In addition, for consumers to modify their water usage to reduce costs, they will require an understanding of the components that result in their total water services bill.

In relation to tariff increases, the Agency believes, once key decisions around the mechanism for tariff changes have been made⁵, that it should be clearly communicated to consumers along with, as above, information as to how they can best manage their usage to reduce costs. It would be hoped that consumers would have a greater understanding of how regulated prices change than is the case currently for the gas market, and formerly for the electricity market. Consumers should also be aware of the safeguards/protections (dispute resolution etc.) that will be put in place to ensure that the customers of Irish Water are treated appropriately and that oversight is comprehensive.

Conclusion

The Agency is aware that the new landscape for water provision is at an early stage and that the establishment of a new utility, regulatory framework and the roll-out of meters is a very significant undertaking for all parties involved. However, the NCA would request that the CER provide as much detail as possible in relation to how and when decisions will be made in relation to billing and tariffs (both metered and assessed charges), the nature and scope of consumer protection and the metrics against which Irish Water's performance will be monitored. This will allow interested stakeholders the opportunity to meaningfully contribute to the process.

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⁵ It is assumed that these decisions will be made in a transparent and understandable manner.