

Domestic Water Tariff Principles and Proposals

Submission

to

Commission for Energy Regulation

by

Apartment Owners' Network

Submitter Details

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1.0 Executive Summary

The purpose of this submission is to comment to the Commission for Energy Regulation (“CER” or “the Commission”) on the domestic tariff structure proposals¹ that have been submitted by Irish Water to the CER. In particular this submission comments on Irish Water’s tariff proposals as they apply to customers living in apartments and residential properties in multi-unit developments that remain to be metered by the time of the introduction of water charges in October 2014.

The AON holds to the principle that Irish Water should install water meters in all residential properties in Ireland, i.e. houses, apartments and similar dwellings in multi-unit developments.

We support the current proposals by Irish Water that an assessed charge for unmetered households be based on factors that are correlated with consumption. The AON supports Irish Water’s proposed multi-factor approach combining occupancy and architecture type to inform an assessed charge.

We submit that a public perception of equity and fairness is key to the success of customers’ acceptance of water services charges. Customers must not feel that they have been unduly disadvantaged by the presence or absence of a water meter. For this reason it is important that the assessed charge be aligned closely with the equivalent metered household charge and that the methodology to determine the assessed charge be reviewed once sufficient data on metered households has been collected.

Furthermore, to ensure the public perception of equity and fairness, it is important that a transparent process for the inclusion of apartments in the next or parallel phase of metering be established. A comprehensive study of all apartment blocks in the state over a two year period would facilitate this process.

1.1 About the submitter

The Apartment Owners’ Network (“AON” or “the network”) is an independent, non-political group representing the interests and views of owners, both owner occupiers and investors, of dwellings in managed estates throughout Ireland.

Membership of the network is diverse and includes owners who are directors of Owners’ Management Companies (“OMC”), residents living in estates where the OMC remains controlled by the estate developer, and residents of houses in managed estates.

As of the date of this submission residents of over 100 estates throughout the country are recorded as being engaged with the network- see details on www.apartmentowners.ie/members/. Many more estates engage with the network on an ad hoc or informal basis.

AON has a working relationship with various national and local government agencies, including the ODCE, the Law Reform Commission, the Department of Justice and Equality, the Property Services Regulatory Authority and Dublin City Council (“DCC”). The

¹www.cer.ie/docs/000956/CER14083%20Domestic%20Tariff%20Design%20Principles%20and%20Proposals%20%20Irish%20Water%20Submission%20to%20the%20CER.pdf

network played a central role in securing the formulation and enactment of the Multi-Unit Developments Act 2011 (“the MUD Act”).

AON meets in open forum once a month at Dublin City Council (“DCC”) Civic Offices. Meetings and activities are facilitated by funding from DCC, and by the involvement of volunteer members. Further information about the network’s activities is available at www.apartmentowners.ie

1.3 Context to submission

The submitter generally supports the requirement for water metering, as a means of facilitating the provision of modern and efficient water infrastructure. The submitter welcomes this public consultation process by the CER in relation to the the domestic tariff structure proposals that have been submitted by Irish Water to the CER.

The submitter notes that, in accordance with Section 39 of the Water Services (No. 2) Act 2013 (“the Act”), Part 5 of which is in Appendix I to this submission, the Commission shall perform its functions in a manner that best serves the interests of customers of Irish Water.

It is further noted that the values upheld by the Commission includes that it shall “*regulate in a fair, transparent and consistent manner*”².

In particular the submitter notes that the Commission must in the performance of its functions have regard to the needs to ensure, *inter alia*,-

- that the customers of Irish Water are provided with the quality of service provided for in a code of practice approved under section 32 (S.39(2)(a))
- that water services are provided by Irish Water in an economical and efficient manner (S.39(2)(b))
- the conservation of water resources (S.39(2)(d))
- the continuity, safety, security, and sustainability of water services (S.39(2)(e))
- that Irish Water performs its functions in an open and transparent manner (S.39(2)(i))

² Section 1.2 of Domestic Water Tariff Principles and Proposals, Consultation Paper CER/14/082

2.0 Details of Submission

This submission is based on the framework set out in the Domestic Water Tariff Principles and Proposals Consultation Paper (CER/14/082) issued on 17 April 2014.

The network notes that water charges for domestic customers will commence in October 2014 with plans that the first bills are scheduled to be issued in January 2015 for usage in arrears.

The submitter sets out its views and concerns under each question in the Consultation Paper-

General Tariff Framework

Q1: Do you consider the principles for domestic tariff design proposed by Irish Water, and any proposed trade-off of these principles, form a suitable basis for the design of domestic tariffs? If not, please explain why citing any additional or alternative approaches that should be considered.

Yes. The AON is of the view that the six principles form a suitable basis for the design of the domestic tariffs.

Q2: Do you agree with Irish Water's assessment that a national tariff regime should be introduced? If not, please explain why citing any alternative approaches to this issue which you consider to be more appropriate.

Yes. The AON supports the principle of a national tariff and agrees with Irish Water's assertion that the benefits of a potential improvement in cost reflectivity from regionally varying charges is more than offset by the risks around equity, customer acceptability and costs associated with the introduction of regional tariffs.

Q3: Do you agree with Irish Water's proposal to reduce the volumetric rate for households whose water supply is not fit for human consumption? If not, please explain why citing any alternative approaches to this issue which you consider to be more appropriate.

Yes. The discount should not only reflect the proportion of water directly consumed or used in food preparation (assumed to be 15% in Irish Water's submission), but should also take account of the cost and inconvenience of alternative water provision.

Q4: Can you think of other circumstances where a tariff reduction should be considered? Please explain your answer.

We submit that the tariff structure should take account of the inconvenience caused to consumers of an unscheduled disruption to the water supply for a period of greater than twelve hours between the hours of 6am to 12 midnight. In addition, the tariff structure should take account of the number of incidences of a disruption to the water supply during a single billing period.

Q5: Do you agree with Irish Water’s assessment that a standing charge averaging 33% should be introduced for unmetered and metered customers? If not, please explain why citing any alternative approaches to this issue which you consider to be more appropriate.

The AON notes the announcement on 6 May 2014 by the Minister for the Environment, Community and Local Government, Phil Hogan, T.D. (“the Minister”) that no standing charge will apply to domestic tariffs.

Q6: Do you agree with Irish Water’s proposal that wastewater should adopt the same tariff structure as water and that charges should be split between water and wastewater in a cost-reflective manner? If not, please explain why citing any alternative approaches that you consider to be more appropriate.

The AON agrees with this proposal.

Q7: Do you agree with Irish Water’s proposal that mixed use customers will not be charged for domestic water usage until the completion of the non-domestic data migration project? Please explain your answer citing any alternative approaches to this issue which you consider more appropriate.

The AON agrees with this proposal.

Q8: Do you agree with Irish Water’s proposal to bill its customers quarterly. If not, please explain why citing your preferred billing frequency.

The AON agrees with this proposal. We submit that a broad range of payment options and frequencies be available to customers in order to assist in ease of payment.

Unmetered Tariff Framework

Q9: What are your views on the proposed charge for unmetered households?

The AON agrees with the proposal for an assessed charge based on factors that are correlated with consumption. Given the arbitrary nature of the proposed meter installation plan, it is of utmost importance that those households without meters do not feel unfairly disadvantaged compared to similar households with meters. On the basis that no standing charge will apply, a metered household’s charge will be entirely based on consumption. It is important therefore that the unmetered household bill similarly reflects consumption.

We concur with the statement under section 4.4 *“For tariffs to be acceptable, customers must perceive that at some level they are paying for the costs attributable to them and not unduly subsidising other customers”*.

We note under section 5.3 of the Irish Water submission *“There will be scope to review the methodology for calculating the assessed charge when more data on usage patterns becomes available. In this regard, we consider that such a review and any ensuing revised*

methodology could be introduced post completion of the phase 1 meter roll-out programme in 2016.”

We support such a review in order assure both metered and unmetered households that the presence of a water meter does not confer a significant cost advantage to either party.

Q10: Do you agree with Irish Water’s proposed multi-factor approach to inform an assessed charge? If not, please explain why citing any alternative approach you consider to be more appropriate. If yes, which of the proposed four models (if any) do you consider most appropriate for unmetered households? Please explain your answer.

We agree that a multi-factor approach is required in order to determine the assessed charge. We note that the Minister has issued a policy direction to the CER requiring assessed charges to be *“based on occupancy to ensure that they are as close a proxy for metered usage as possible”*. We agree that occupancy should be the primary factor to be used as a proxy for water consumption.

However we note that the Walker Review (UK) with respect to the voluntary disclosure of occupancy data stated that:

*“In the absence of official data on occupancy, relying on voluntary disclosure is, in the view of the review team, impractical (at least on a large scale) because it would be **open to deception and subject to constant changes, and enforcement would be extremely difficult**. In addition, occupancy is not the only indicator of usage. The presence or absence of a garden, the water efficiency of fittings and appliances and the behaviour of customers can all have a significant impact on water usage. Unless these other factors are also taken into account, water bills would not match usage for a significant number of customers.”*

We therefore support the inclusion of alternate factors to determine a proxy for water consumption.

We agree with the primary and secondary criteria as set out under section 5.3.2.2 of Irish Water’s submission to the CER. In particular, we consider that the availability of data that is independently available and verifiable is an important factor that should give the public confidence in the equity and fairness of the system – a key principle of tariff design. We have received feedback from our members that a system that simply relies on voluntary disclosure of occupancy would not retain the confidence of the public and therefore it is imperative that an independent secondary factor is incorporated.

We note the research papers Russac et al. (1991), Clarke et al. (1997) and Fox et al. (2008) have found that there is a positive correlation between architecture type and water consumption. We view the availability of data about architecture type available on the Geo Directory service, in addition to CSO reports on properties in each Enumeration District, as an important source of verifiable data that can be incorporated into the design of the assessed charge. The independence of this data is critical to gaining public confidence with regard to equity and fairness of the assessed charge.

We have reviewed all four options presented by Irish Water, which combine Occupancy and Architecture Type to determine appropriate pricing points. A key consideration for the AON is the vulnerability of voluntary disclosure on occupancy to manipulation and deception. It is therefore our preference to limit the Occupancy scale for larger households to “Not Small >1”. This eliminates Options 1 and 2 from consideration.

In addition, we agree with the recognition of “single occupancy households” as a vulnerable category and support a single pricing point for this category regardless of Architecture Type.

Comparing Option 3 and 4, we have concerns with regard to the definition of “Unoccupied” and how this declaration can be verified. While we accept that a differentiation between Single Occupancy and Unoccupied is warranted, on balance we feel that the definition of Unoccupied is open to deception and manipulation and may therefore undermine the public’s confidence in the equity of an assessed charge tariff.

On the basis of the above, we support Option 3.

Q11: Do you agree with Irish Water’s proposal to introduce optional bill caps for households moving from an unmetered to a metered charge? If yes, do you agree with the proposed timeframe of 6-12 months? If not, please explain why citing any alternative approaches to this issues which you consider to be more appropriate.

We agree with this proposal and view the timeframe of 6-12 months to be appropriate.

Metered Tariff Framework

Q12: What are your views on the proposed charge for metered households?

We support the proposed charge for metered households.

Q13: Do you agree with Irish Water’s proposal to introduce a two-part tariff structure consisting of a fixed (standing) element and a volumetric component? Please detail.

The AON notes the announcement on 6 May 2014 by that no standing charge will apply to domestic tariffs.

Further Suggestions

Q14: Do you have any other suggestions for improving upon Irish Water’s proposals? Please explain how your proposals improve those put forward by Irish Water.

We are of the view that it is important that public confidence in the domestic water tariff system is not undermined by a perception of disadvantage and/or unfairness for a certain

category of customer. We again refer to Irish Water's submission and specifically reference section 4.4:

"The introduction of water services charges to a situation where customers are differentiated between being metered and unmetered brings acceptance challenges. Equity is an important consideration here. If it is not maintained between these two customer groups, there is a risk that water services charges will be rejected. Since being metered or unmetered is not a matter of choice, low usage unmetered customers and high usage metered customers may, in particular, be at risk of feeling disenfranchised versus their counterparts with the same usage profile but different charging arrangements. This places a heavy burden on the need for accurate assessment of usage for unmetered customers.

There is also the issue of cost reflectiveness which can operate at several levels, such as between customer classes, between services and geographically. For tariffs to be acceptable customers must perceive that at some level they are paying for the costs attributable to them and not unduly subsidising other customers."

We are encouraged by the recognition by Irish Water of the importance of perceived fairness in the success of the implementation of domestic water charges. This factor has been a key discussion topic for members of the Network. In particular, the blanket exclusion of all apartments from Phase 1 of the metering programme has caused concern that apartment dwellers are treated as "second class citizens" in the implementation of water charges. It is a point of great frustration that in the early stages of water charges apartment owners will not be afforded the opportunity to minimise water charge costs through efficient water usage. We are concerned by the lack of transparency as to how the list of Phase 1 households was determined, and wish to see broader consultation with all stakeholders in the formulation of Phase 2.

We wish to dispel the notion that apartment blocks or individual units are "unmeterable". We submit that during Phase 1, Irish Water should engage with all Owners' Management Companies and other bodies with responsibility for the management of apartment blocks in Ireland in order to assess the compatibility of various apartment blocks with the metering of individual units. The AON is happy to engage with Irish Water in this regard in order to facilitate access to apartment blocks. We submit that Irish Water's work would benefit from engaging with The Irish Property & Facility Management Association (IPFMA) and the Property Services Regulatory Authority.

We understand that a pilot survey of apartment blocks was conducted by Irish Water in late 2013. We submit that Irish Water publish the results of this survey in order to inform the public of the capacity for water meters to be installed in apartments.

We are encouraged by the announcement by the Minister on 6 May that *"the Department is also exploring with Irish Water the potential to include a new phase of metering of some 48,000 apartments, which can be easily metered as part of a separate procurement"*. We submit that the process for determining how these 48,000 apartments were chosen should in the interest of transparency be disclosed without delay.

We welcome the opportunity to work with Irish Water, the Department for the Environment, Community and Local Government, and the Commission in order to establish a transparent and equitable plan for the metering of apartments in Ireland.

Q15: Are there any other transitional arrangements that you believe should be considered to ease the introduction of charges/the transition from one tariff regime to another for both unmetered and metered households? Please explain your answer.

We consider the current proposed transitional arrangements to be adequate.

3.0 Conclusion

The AON, representing the views of thousands of apartment owners and occupiers, welcomes the opportunity to comment on the proposed charging structures, and trusts that our views will be given due consideration.

Appendix I

Part 5 Water Services (No. 2) Act 2013

Economic
Regulation

Performance of functions of Commission

39. (1) The Commission shall perform its functions in a manner that best serves the interests of customers of Irish Water.
- (2) The Commission shall, in the performance of its functions under this Act, have regard to the need to ensure—
- (a) that the customers of Irish Water are provided with the quality of service provided for in a code of practice approved under [section 32](#),
 - (b) that water services are provided by Irish Water in an economical and efficient manner,
 - (c) that Irish Water operates in a commercially viable manner,
 - (d) the conservation of water resources,
 - (e) the continuity, safety, security, and sustainability of water services,
 - (f) that Irish Water can meet all reasonable demands for water both current and foreseeable,
 - (g) the recovery of costs of water services in accordance with Article 9 of the EU Water Framework Directive,
 - (h) that Irish Water performs its functions in a manner that will enable the achievement by the State of the environmental objectives of that Directive,
 - (i) that Irish Water performs its functions in an open and transparent manner.

Advisory role of Commission

40. The Commission shall advise the Minister in relation to the development and delivery of water services.

Strategy statement

41. (1) The Commission shall—
- (a) not later than 6 months after the commencement of this section, prepare and submit to the Minister a strategy statement in respect of the period of 3 years immediately following the year in which the strategy statement is so submitted, and
 - (b) not later than 3 months before each third anniversary of the submission to the Minister in accordance with this subsection of the strategy statement for the time being in effect, prepare and submit to the Minister a strategy statement in respect of the period of 3 years immediately following the year in which it is so submitted.
- (2) The Minister shall, as soon as practicable after a strategy statement has been submitted to him or her under *subsection (1)*, cause a copy thereof to be laid before each House of the Oireachtas.
- (3) The Commission shall, as soon as practicable after copies of a strategy statement are laid before both Houses of the Oireachtas in accordance with *subsection (2)*, arrange for the strategy statement to be published on the internet.
- (4) In this section “strategy statement” means a statement that—
- (a) specifies the key objectives, outputs and related strategies, including use of resources, of the Commission in relation to the performance of its functions under this Act, and
 - (b) is prepared in a form and manner that is in accordance with any directions issued from time to time by the Minister.

**Directions to
Commission**

42. (1) The Minister may, from time to time and after having considered any representations made to him or her in accordance with an invitation under *subsection (4)*, give to the Commission such direction of a general policy nature as he or she considers appropriate.
- (2) The Commission shall comply with a direction under this section.
- (3) The Commission shall, upon the request of the Minister, provide the Minister with a report in writing of the measures (including the expenditure incurred by it as a result of such

measures) that it has taken to comply with a direction under this section.

(4) The Minister shall, before giving a direction under this section—

(a) give a draft of the proposed direction to—

(i) the Commission, and

(ii) the Joint Committee referred to in paragraph 26 of Schedule 1 to the [Electricity Regulation Act 1999](#),

and invite those persons to make representations, in writing, in relation thereto within such period (being not less than 30 days from the giving of the draft to the Commission or publication of the draft under *paragraph (b)*, whichever occurs later) as is specified in the notice referred to in *paragraph (b)*, and

(b) publish—

(i) the draft and the reasons for the Minister's proposing to give the direction concerned in *Iris Oifigiúil*, and

(ii) a notice inviting the making of representations by interested persons in relation to the draft within such period (being not less than 30 days from the giving of the draft to the Commission under *paragraph (a)* or publication of the draft under this paragraph, whichever occurs later) as is specified in the notice.

(5) Where the Minister proposes to give a direction under this section, he or she may consult in relation thereto with such other Ministers of the Government as he or she considers appropriate.

(6) The Minister shall arrange for the publication in *Iris Oifigiúil* of each direction given by him or her under this section.

Information and cooperation

43. (1) The Commission may, from time to time, request Irish Water to provide the Commission with such information as the Commission may reasonably require to enable it to perform its functions under this Act.

- (2) Irish Water shall, as soon as reasonably practicable, comply with a request under *subsection (1)*.
- (3) The Commission shall, in so far as is consistent with the proper performance of its functions, endeavour to secure administrative cooperation between it and the Agency and for that purpose, the Commission shall enter into an arrangement with the Agency for the purposes of—
 - (a) facilitating cooperation between the Commission and the Agency in the performance of their respective functions in so far as they relate to water services,
 - (b) avoiding duplication of activities by the Commission and the Agency,
 - (c) ensuring, as far as practicable, that the Commission and the Agency cooperate in a manner that best promotes the interests of consumers and the efficient provision of water services, and
 - (d) ensuring, as far as practicable, consistency between decisions made or measures taken by the Commission and the Agency in relation to water services.
- (4) An arrangement under this section shall not operate to bind the Commission or the Agency.
- (5) The Commission and the Agency may make an arrangement varying the terms of an arrangement under this section (including an arrangement under this subsection).
- (6) The Commission shall give the Minister a copy of an arrangement under this section.
- (7) An arrangement under this section shall not operate to require a party to the arrangement to provide information to the other party to the arrangement if the disclosure of that information by the first-mentioned party is prohibited by law.