



CONSUMERS' ASSOCIATION OF IRELAND

SUBMISSION

COMMISSION FOR ENERGY REGULATION

WATER CHARGES PLAN CONSULTATION

REVIEW OF IRISH WATER'S ALLOWED REVENUE

AND

WATER CHARGES PLAN

1st OCTOBER 2014 – 31st DECEMBER 2016

INTRODUCTION

The Consumers' Association of Ireland (CAI) is a wholly independent, non-profit, NGO, registered with charitable status, founded in 1966 to protect and promote the interests of consumers.

On the 22nd of November 2011 the then Chairperson and the CEO of the Consumers' Association of Ireland had the opportunity to address a Joint Oireachtas Committee on Environment, Transport, Culture & Gaeltacht which was considering Government's plan to introduce domestic water charges for households connected to a public water supply.

The CAI's submission focussed upon the cost to consumers of that supply of water and its disposal.

In summary, the issues of concern then to the CAI and which were addressed on the day were:

- A fair system must be acknowledged to be through a metered, pay for use basis;
- Water charges should only be introduced when there are meters in place and the inefficiencies and concerns of the current system have been addressed e.g. leakage and fluoridation;
- Consumers who pay for a service have a right to receive an efficient service with a consumer focus in its provision and management;
- Considering that water is a basic human need, it must come at a reasonable cost;
- There must be incentives available within the system for consumers to proactively reduce their consumption and benefit directly from such actions.

A copy of the submission document is attached.

The CAI would still hold with its views expressed to the Committee Members and through the submission document. It is clear that a number of our minimum priorities will not have been attained upon the date of introduction of water charges in 5 weeks time. It is best to state from the outset that this is unacceptable – especially in terms of metering.

The Commission for Energy Regulation (CER) has the role to protect the interests of water customers, to ensure water services are delivered in a safe, secure and sustainable way and that Irish Water operates in an economic and efficient manner.

It would be the CAI's opinion that there is much to be considered by CER in terms of its remit and how, in the opinion of the CAI, the majority of its interests in protecting Irish Water customers (efficient, economic, sustainable, secure.....), will simply not be realised on October 1.

This unacceptable situation places CER in a challenging position but one it must, nonetheless, acknowledge and address in realistic terms to Government and despite the unforgiving, unrealistic and unacceptable deadline.

15th August 2013

Q.1: Do you agree with CER's proposed treatment of Irish Water's establishment and pre Q4 2014 incremental operating costs? If not please specify areas that you feel should be treated differently and how?

Q. 2: Are there any other methods to evaluate Irish Water's proposed capital expenditure that you feel would be more appropriate and why?

Q.3: Do you agree with the CER's proposals for Irish Water's capital expenditure? If not, please identify specific areas that should be treated differently and outline your reasoning.

A: (Q1) The proposed cuts of 5% and which introduce a €9.1m reduction in establishment costs is stated as having been difficult to arrive at as there was no clear method of allocating internal staff time.

We would be of the opinion that a 15- 20% reduction be applied until Irish Water can definitively outline, in audited accounting documentation, the full analysis of its management and labour costs. This will feed into the necessary expenditure and efficiency cost guidelines for all future reviews and comparisons.

(Q2, 3) These would feed, in terms of further reductions, into the CER proposals for further reductions of:

- Legacy accounts by €50m for contractor claims;
- Allow only 75% ex ante funding of the capital expenditure programme;
- Reduce all non-committed capital expenditure by 7% annually and;
- Adoption of an uncertainty mechanism to address any change in connection policy.

However, again, we restate that higher reductions should be introduced with audited and verifiable spending being the basis to prove necessitated and realistic costs and expenditure under all headings. An example here would be for a doubling here of all considered reductions which would leave CER in control and Irish Water under deadlines, both internal and external, to recoup any essential overspend in any area.

He concern in not doing so lies in the example how CER's proposed allowable revenue of €2, 078m presents a charge of €594 per household, which, after Government subvention is applied, results in a charge per household of €238.

This form of calculation 'fits' a Government stated nationwide wished for average. The difficulty is that this requires to be realistically appraised, monitored, audited and regularly reviewed in terms of value for money spending – in all areas of Irish Water trading.

Precautionary considerations now will protect consumers of water in terms of better meeting the CER policy.

Q.4: Do you agree to Irish Water's approach to prioritisation?

Q 5: Do you agree with the need for an outputs monitoring group which will provide a forum for considering investment priorities, monitoring Irish Water's performance and holding Irish Water to account in relation to capital expenditure?

Q 6: Do you agree with the need for further consultation on the approach to monitoring the delivery of capital projects?

A: The approach suggested in terms of prioritisation is reasonable in that it acknowledges the need for progression of 'A' category major projects. Of significant importance here and with a necessity for unconditional priority are the issues of wastewater and related components.

The monitoring group is essential. It will be critically important that this is a fully representative group of relevant stakeholders including the CAI. Monitoring should be structured in terms of frequency to acknowledge the start-up position of Ireland and the importance of open and inclusive interaction with up to date detail for briefings and in plain and understandable language and figures.

This naturally will feed into the consultation regarding capital projects.

Q 7: Are there any other methods to evaluate Irish Water's proposed operating expenditure that you feel would be more appropriate and why?

Q 8: Do you agree with the CER's proposals for Irish Water's operating expenditure? If not, please identify specific areas that should be treated differently and outline your reasoning.

A: The CER proposal to cut operating expenditure by 14% in total by the end of 2016 appears to be, in light of comparisons with other provider costs within the EU, somewhat short of the mark. We would join with others who argue that efficiencies and an arrival to a position of 'steady state' by the end of 2016 should result in greater reductions across the board. The costs currently advised for the operation of Irish Water are questionable in terms of efficiencies of budgeting in the context of necessity of staff numbers and administrative staff numbers and costs.

As with previous comments we believe therefore that a higher target of reduction to be met would incentivise Irish Water to better meet them within the timeframe.

Q 9: Do you agree with the level and cost categories to which CER proposes cuts to Irish Water's establishment costs?

Q 10: Do you agree with the CER's proposals regarding the treatment of depreciation and asset categories/lives?

Q 11: DO you agree with the CER's approach to setting Irish Water's allowed rate of return?

Q 12: Do you agree wit our proposed cost of debt uncertainty mechanism?

A: We must trust that CER would employ and act upon the advice of experts and professionals in the accounting and auditing sector to introduce the highest level of compliance and best practice recommended and in the context of the CER mission statement.

Q 13: Do you agree with our proposed approach to incentivising improvements in quality and customer service?

A: The framework to mirror those successfully achieved and proven in England, Wales, Scotland and Northern Ireland and underpinned by Overall Performance Assessment which link to financial incentives/penalties matched against a guaranteed set of standards that define compensation to customers seems to be the best approach at this time.

What will be key here will be the structure of independent review supporting such a structure and its level of resource. Every element of the delivery of the water supply will come under scrutiny and it is likely that the level of complaints, enquiries and requests for advice and assistance will be significant.

The CAI would require full clarification of this mechanics of this structure to be made widely available and with frequency to facilitate consumer confidence. We consider it particularly important to establish consensus behind a set of verifiable performance indicators as a basis for the CER monitoring of the effectiveness of operations. Such indicators should in addition to water quality include for example interruptions of water supply and complaints from customers. This obviously presupposes clear and well functioning structures for receipt and treatment of customer complaints.

In addition, clarification of any event involving a cost to the consumer needs to be immediately outlined in full detail so that the 'real' costs can be understood and evaluated in terms of the efficiencies for which Irish Water must take full and immediate responsibility.

Q 14: Do you have any comments on our approach to setting the total revenue allowance, and determining the average charge to households?

A: In regard to the minimum charge as set we have already outlined our concerns in earlier answers as the benchmark set presents a risk for prices only to increase. While acknowledging that the CER proposed reduction brings the average cost per household down from €646.88 to €594.00 pre-subsidy, this still, from the outset, presents a seriously expensive initial tariff structure.

Household consumption, for the soon to be paying user in Ireland, is a complete unknown to them. Yet, nothing has been done by way of a nationwide programme for educating householders –young or old – on the means through which they can understand, cost or reduce their consumption. The allowance, it has been suggested, is set to take account of this poor and ridiculous situation. Yet, CER is agreeing that the allowance for a child be introduced at a mere 21,000 liters per annum instead of the 38,000 originally considered to be most reasonable.

We would ask that this be reconsidered under these circumstances and also in the context of providing affordable value to family households from the outset.

We would consider Irish Water's proposal to apply a default unmetered tariff to customers who do not validate their details with an assessment charge, based upon 2 adult usage tariffs without any allowances, as excessive.

Q 15: Do you have any comments on the CER's proposals to monitor Irish Water?

A: The urgent establishment of an Output Monitoring Group with independent consumer representation would meet the CAI's requirements in this area.

Q 16: Do you agree with the proposal to set the single occupancy consumption and incremental consumption levels at 66,000 and 21,000 liters per annum respectively?

A: Household consumption, for the soon to be paying user in Ireland, is a complete unknown to them. Yet, nothing has been done by way of a nationwide programme for educating householders –young or old – on the means through which they can

understand, cost or reduce their consumption. The allowance, it has been suggested, is set to take account of this poor and ridiculous situation. Yet, CER is agreeing that the allowance for a child be introduced at a mere 21,000 liters per annum instead of the 38,000 originally considered to be most reasonable.

We would ask that this be reconsidered under these circumstances and also in the context of providing affordable value to family households from the outset.

Q 17: Do you agree with the proposal to change the child allowance from 38,000 liters to 21,000 liters in a year?

A: No.

Household consumption, for the soon to be paying user in Ireland, is a complete unknown to them. Yet, nothing has been done by way of a nationwide programme for educating householders –young or old – on the means through which they can understand, cost or reduce their consumption. The allowance, it has been suggested, is set to take account of this poor and ridiculous situation. Yet, CER is agreeing that the allowance for a child be introduced at a mere 21,000 liters per annum instead of the 38,000 originally considered to be most reasonable.

We would ask that this be reconsidered under these circumstances and also in the context of providing affordable value to family households from the outset.

Q 18: Do you agree with the CER's proposals for the application of water allowances?

A: While noting the allowances carry over from quarter to quarter we disagree with the determination that any unused allowances cannot be carried over from one year to the next.

Where, for example, a householder is ill and hospitalised for a period of time they should not be further at a loss to incur water charges where their illness may necessitate additional water usage upon their return to home.

The allowance should carry for 1 year at least.

Q 19: Do you agree with CER's proposal that Irish Water provide water and waste water servicescalculated on a 50/50 cost basis?

A: Water is accounted for here solely on the basis of usage through toilets, sinks, clothes and dishwashers and baths and showers. No account is taken for water used for drinking disposed of through commercial outlets or of water used to maintain plants, gardens, car radiators etc.

We do not disagree with the basis but note that this needs to be accommodated within the cost-saving measures of educational awareness and guidance so that they can be brought down to the very minimum by the paying consumer.

Q 20: Do you agree that flexibility to pay on a monthly basis should be provided for domestic customers?

A: We agree fully that it ***must*** be provided.

Q 21: Do you agree with CER's proposed rates for water and wastewater services?

A: A: In regard to the minimum charge as set we have already outlined our concerns in earlier answers as the benchmark set presents a risk for prices only to increase. While acknowledging that the CER proposed reduction brings the average cost per household down from €646.88 to €594.00 pre-subsidy, this still, from the outset, presents a seriously expensive initial tariff structure.

In addition the volumetric rate of €2.44 per liter for water and wastewater, being based upon Irish Water calculations that have been described as seriously over and above those of other providers in other EU jurisdictions, we believe therefore, merits a further detailed review.

Q 22: Do you agree with the CER proposal for setting water and wastewater charges for unmetered customers?

A: In the context of the allowance for children and our expressed concerns we do not agree.

In addition, it remains our stance that charges should not be introduced until all Irish consumers have the benefit of a metered system.

Q 23: Do you agree with the proposal to apply a default tariff to customers that do not validate before the end of the campaign?

A: While we acknowledge the need for some default mechanism we would consider Irish Waters proposal to apply a default unmetered tariff to customers who do not validate their details with an assessment charge, based upon 2 adult usage tariffs without any allowances, as excessive.

Q 24: Do you agree that, where a customer is late to validate, allowances should only be applied from the date the customer validates and that the allowance prior to that date would be not be available to the customer?

A: What is quite striking and worrying here is the disrespectful attitude towards the customer/consumer from the Irish Water side. The intention appears constantly to penalize as opposed to communicate and build a positive relationship based upon quality customer service.

We would only agree if the bill would be pro-rata with the relevant accompanying level of allowance for the period of the bill.

Q 25: Do you agree that the cap on customers' bills should be extended where a leak is identified?

A: Yes. However, this raises the issue of Government's proposal that each household should be provided with a free fix to the first leak on a customer's water supply pipe.

There is an assumption and suggestion here that a) the quality of the system is so good that the first repair will be of the highest quality – but no mention is made of duration, quality, inspection or maintenance of the system or its frequency.

If consumers are to pay then the provisions of the Sale of Goods & Supply of Services Act, 1980 come into direct effect and support for the consumers of both the water and the service as supplied by Irish Water.

There can be no acceptance that any liability for a second fix (or for that matter a third or fourth) will come at any cost whatsoever to the consumer. For many it is already acknowledged that we have a poor quality of infrastructure. Such an inheritance cannot come with the consideration that, following the first inevitable fault, the Irish public will

personally and individually become responsible for the funding to repair that poor quality infrastructure.

We reject the suggestion of these charges, in the manner that they are proposed/dictated, entirely

Q 26: Do you think there should be a minimum unmetered period for customers to qualify for a rebate?

Q 27: Do you agree with either of the CER proposed (timeframes) to operate the rebate?

Q 28: Do you agree that there should be no minimum threshold to qualify for a rebate?

A: The system of rebate proposed by Irish Water is unacceptable. Their position of being under assessment for a minimum of 6 months and a 12-month period before they will issue the rebate is extraordinarily draconian and anti-consumer. The CER consideration of no minimum assessment duration and a maximum of a quarter for rebate or credit is decidedly more equitable.

We agree that there should be no minimum time to qualify for a rebate.

We agree that there should be no minimum threshold to qualify for a rebate.

Q 29: Do you agree with the proposal to apply a minimum charge for premises which are not permanently occupied?

A: Irish Water is proposing an €80 minimum charge per service here. The CAI would agree with CER that €160.00 implies a high level of consumption and is excessive.

The point made by Irish Water that the rate is set to dissuade some from abusing/cheating the system is not without merit. However, the CAI would believe a €50 charge would be reasonable.

Q 30: Where water is unfit for human consumption - Do you agree with CER's proposed definition of long term i.e. 3 months?

Q. 31: Do you agree with the CER's proposed discounts for water that is unfit for human consumption?

Q 32: Do you think that Irish Water's proposed definition of Force Majeure is appropriate?

A: The CAI would be of the opinion that, in terms of water and its safe availability and quality, a period of inability to supply for up to 2 months would be described as 'long term'.

The CAI would consider that in any instance where water breaches the mandated requirement of the provider that the water supplied – and charged for - be fit for human consumption, would necessitate a nil charge for 100% of that water and not the 50% discount suggested.

The CAI would see the Irish Water definition of Force Majeure as a broad, well considered but an entirely unacceptably anti-consumer statement providing the company with the ability to deny their customers service – without limitation. In general, the IW approach towards operator liability does not correspond to normal best practices as regards risk allocation within utilities infrastructures. The normal point of departure is that operator takes the risk for all operational shortcomings, since operator is in the best position to deal with these risks.

The definition and the approach in general must therefore be rejected.

For the sake of motivating performance, we think that a discount policy must necessarily cover other aspects than mere water quality. It might be that water pressure and the hardness/softness of water as performance shortcomings are debatable, as pointed out by Irish Water. However, no clear position is taken as regards the practically frequent cases where water supply is cut off for example due to repair of infrastructure. There is considerable international practice on types of performance indicators to be used as basis for a discount system or for reduction of tariffs over a period. This issue ought to be an important theme for CER performance monitoring and should in any case not be left to individual ad-hoc solutions (bottled water, one-off compensation) and thus opening up for unequal treatment of consumers.

Q 33: Do you agree with the CER's proposals and are there any other payment options you feel Irish Water should offer?

A: We believe the payment options to be standard to other providers.

However, the proposal that bill be paid 14 days from the date of issue is not acceptable. There have been far too many examples of late postage and delivery of bills. In addition, the unacceptable definition of Force Majeure proposed by Irish Water would leave them with no liability to their customers in the – likely – event of such occurrences. However, it is notable that there is no such provision for the customer.

Therefore, a 30-day payment from date of billing would be the acceptable option here.

Questions 34, 35, 38, 39 and 40 which relate to non-domestic supply proposals and Q 36 regarding group water schemes our outside of our remit.

Q. 37: Refers to the treatment of mixed-use customers.

A: We would intend that our submitted responses to matters related be applied here.

Q 41: Do you agree with Irish waters proposals as outlined regarding domestic and non-domestic connection charges?

A: We will reserve comment on this point until the new connection charge policy has been seen and reviewed by CER.

Q 42: Do you agree with Irish water's proposals as outlined regarding charges for additional services to domestic and non-domestic customers?

A: As this information is not available and as we would generally be against any additional charges to providers of any basic service, we will reserve comment on this point until Irish water has submitted these proposed charges to CER. We will assume that CER will seek a public consultation on any and all proposed charges.

ENDS.