



ICMSA

Submission To

Commission for Energy Regulation

Water Charges Consultation Plan

August 2014

Introduction

The value of Irish food and drink exports approached €10 billion for the first time ever in 2013. This represents an increase of 9% on the previous year and 40% in the last four years with revenues almost €3 billion higher than in 2009. However, this growth and continued contribution of the agri-sector to export driven growth and economic recovery is only sustainable if the sector remains competitive.

Water quality in Ireland continues to improve and farmers have played a key role in contributing to these improved standards through considerable investment of over €2.5 billion in upgrading farmyards and increasing slurry storage since 2005. This expenditure ensures farmers comply with the Nitrates Directive (Water Framework Directive).

Farmers are classified as non-domestic users of water and have been paying for water on a volumetric basis coupled with a standing charge for meters for many years. There is a significant variation in the rate of water charges imposed by Local Authorities across the country. In addition, farmers who receive water for domestic and non-domestic use are allocated a domestic usage allowance of 50,000 gallons (227,000 litres) per year.

Irish Water was set-up on the basis of reform and consolidation of supply and conservation of water services in Ireland which would be regulated by the Commission for Energy Regulation (CER). However, it appears that multiple Local Authorities will effectively be providing the water service at local level superimposed at National level by Irish Water. ICMSA has serious concerns that this will result in additional costs including administration costs which will impact on the ability of Irish water to deliver a first-class cost efficient water service at a reduced cost to the consumer. The establishment of Irish Water must provide for operational efficiencies to guarantee the most cost-efficient means of useable potable water delivery for Irish consumers.

The CER Consultation document contains commentary and recommendations under three headings; Irish Water's Interim Revenue Review, Irish Waters Proposed Water Charges Plan and Domestic Water and Waste Water Charges. The ICMSA Submission will follow the sequence of 42 questions set out under each heading in the CER Consultation document.

Irish Water's Interim Revenue Review

Question 1.

The ICMSA Submission to the CER in May 2014 and the ICMSA Submission to the Department of the Environment, Community and Local Government in June 2014 both recommended that an independent assessment of the cost of administration should be undertaken to assess if cost-efficiencies have been achieved in the switchover to Irish Water from the Local Authority structure. ICMSA welcome the fact that the CER did undertake a high level review of Irish Water's establishment costs, 80-85% of which appear to be "reasonable" as determined by CER. In this context, ICMSA agree with the CER proposed treatment of Irish Water establishment costs.

However, ICMSA note that the review was confined to an examination of the efficiency in which the costs were incurred and not whether the costs were justified in the first place. We would not like to see this as in any way setting the standard for any subsequent review and in fixing the level of approved costs.

Questions 2 and 3.

These questions deal with capital expenditure and evaluation of same. This is a complex area but a very important area with regard to a number of aspects including the ongoing cost to consumers as well as efficiency, water quality and environmental issues in relation to wastewater treatment. The main concern here is in relation to evaluation of expenditure.

ICMSA broadly agree with the evaluation carried out by the CER on Irish Waters proposals on capital expenditure. There seems at times to be some overlap between the level of expenditure, efficiency of expenditure, cost of expenditure and the financing of capital. It is our view that before any definitive decision is taken regarding capital expenditure evaluation, and definitely with regard to the next regulation period beyond the end of 2016, that a full internationally comparable and independent evaluation of all aspects of capital expenditure would be undertaken.

The record of Irish public capital expenditure is poor. We should not repeat the mistake with Irish Water given that the opportunity exists to get it right at the beginning. We recognise that CER have carried out comparison's and that it intends to monitor Irish Water expenditure on capital commitments during the interim period to ensure that only efficiently incurred costs are allowed.

On page 17 it is stated that a sum of €60 million is allocated for office staff expenditure to deploy staff in each Local Authority capital office. This is an outrageous cost and we would question the need for such coordination in the first instance given that all this work should in reality be centralised and integrated.

ICMSA agree with the contents of the section headed Proposed Capital Expenditure Efficiency on page 18, however capital expenditure, reduction in costs and the sourcing of funding are all distinct issues - but interrelated. It is vital that they are treated separately.

Questions 4, 5, and 6

Given the level of underfunding in Irish water infrastructure in the past and the fractious nature of same, project prioritisation and monitoring are clearly important. In this regard, we agree with the proposal to establish an Output Monitoring Group and this process of evaluation and monitoring would benefit enormously from an independent expert evaluation of the various aspects of capital expenditure as suggested in the previous section of this Submission.

Questions 7 and 8.

Clearly operational expenditure will be the key determinant of the cost of water to customers. In this regard, the Service Level Agreements extending for the next 12 years are clearly an issue of major concern and indeed are a huge and unjustified liability and burden placed on Irish Water consumers. The CER must use every available legal and procedural means of offsetting and reducing the burden of these agreements.

ICMSA agree with the view of the CER that the Irish Water proposal to apply a mere 2.2% annual efficiency in operating costs to 2016 is at best “modest”. In Table 3.8 it can be seen that employment costs in Irish Water is up to four times the level of the lowest comparator used. This must be addressed. Therefore, we strongly agree that the proposed average 7% cut in each of the years 2015 and 2016 is the least that is required.

The expenditure needed on remuneration in a start-up company is likely to be extensive but offset by the fact employees start on a lower pay grade level. This of course may not apply as Irish water is serviced by an existing semi-state and existing Local Authority. While the staff in these positions would be on higher pay grades than if this was a complete start up, the benefit is surely accomplished by the need for less staff as they are experienced in the utility sector and economies of scale should be reaped in remuneration.

With regard to question 8, we fully agree with the CER proposal for a reduction in Irish Waters operating expenditure and it is essential that these costs are monitored on a continuous basis so that they are actually adhered to. Any failure to achieve the reductions must not be allowed to set the expenditure base line for the next regulation period beyond the end of 2016.

Questions 9 and 10.

The opening regulated asset base is important in estimating and providing for fair return on capital invested. ICMSA broadly agree with the approach adopted by CER, however, a sum of €200 million liabilities is to be transferred from Local Authorities to Irish Water. While this is a Government decision, ICMSA believe this should not fall outside the remit of CER

and the final figure should be approved by CER given that it accounts to close on 20 percent of the opening regulated asset base.

Questions 11 and 12

ICMSA agree with the CER's approach in setting Irish Water's allowed rate of return on capital. The CER have provided a clear expose of its reasons behind its rate fixing decision. With regard to the proposed cost of debt uncertainty mechanism in relation to question 12, interest rates have fallen significantly in the last month and indeed CER should be minded in any review to adjust downwards rather than upwards.

Question 13

While ICMSA broadly agree with the approach being recommended by CER, the targets being put forward for the interim period are extremely weak in terms of what will be measured and the targets to be reached under each subheading. Clearly at this stage, or in the very near future within the interim period, a set of metrics for the terms of quality and customer service should be set by the CER.

Question 14

While we agree with the general approach adopted by CER in setting the total revenue amount, which in any event follows on from previous decisions regarding operational costs and capital costs, a number of issues nonetheless arise which must be borne in mind.

First, of itself, the average household cost is merely a political target and has no significance in practice. However, a key concern and one which it is important for consumers to realise is that the initial cost of water is reduced to the extent of the Government subsidy which may not continue at its present level, if at all, beyond the end of the interim period. Thus, it is vital to ensure that efficiencies are achieved by Irish Water and that a lower total revenue allowance is set either during the interim period and most definitely in the subsequent regulation period beyond the end of 2016.

Secondly, it is noted that the cost of water to domestic users is also contingent on the revenue from and cost charged to non-domestic users. This issue of charges and revenue from non-domestic customers is a key concern for ICMSA which has not yet been addressed by Irish Water or the CER. ICMSA is extremely concerned that in the event of efficiencies not being achieved by Irish Water then the cost to non-domestic users will increase.

Question 15

ICMSA believe it is crucial there is proper monitoring of Irish Water's performance to ensure efficient delivery of appropriate service levels to customers. In this regard, we fully agree with the proposal for an Output Monitoring Group and believe that this group should include representatives of all customers including the farming and rural communities.

Domestic Water and Waste Water Charges

Question 16

ICMSA believe the sample size used in the Irish Water Consumption Research Project is relatively low and question the geographical distribution of the dataset.

Question 17

ICMSA believe the reduction in the child allowance to 21,000 litres annually must be kept under review and adjusted should the evidence warrant same.

Question 18

Irish Water have stated that customers will have to supply PPS numbers in order to apply for the Government allowances of 30,000 litres per household and 21,000 litres per child. Irish Water is proposing to apply such allowances on a daily basis from 1st October for individuals that apply by the deadline of 31st October 2014.

Irish Water have proposed that where a customer applies outside of the qualifying period (after 31st October) then the allowances will only come into effect on the date the customer applies. ICMSA is totally opposed to this proposal and question the legality of Irish Water disentitling a customer to any Government allowance irrespective of when they apply for the allowance. ICMSA believe Irish Water should be incentivising households to apply on-time and validate their allowances by offering an additional water allowance for all those registered by 31st October 2014 rather than penalising customers. The Department of Environment, Community and Local Government offered such an incentive in the form of a reduced registration charge for septic tanks.

In addition, the Government allowances are on an annual basis and ICMSA believe any unused allowances should be carried over from one year to the next similar to the carryover from one quarter to the next.

ICMSA has concerns that the water allowances are for the period up to the end of 2016, with no commitment from the Government to continue with these allowances thereafter.

Question 19

In the absence of data, the CER proposed 50-50 split between water and waste water is a logical initial divide. However, Irish Water should provide detailed cost analysis on what is the actual divide, so that this can be reflected fully in the domestic tariff, and indeed non-domestic tariff for water and the tariff for waste water services.

Question 20

Yes, we agree that flexibility should be introduced which would allow monthly payment for domestic customers if the individual customers so wish.

However, Irish Water have proposed that non-domestic customers (which includes mixed-use customers) will be billed by Irish Water for the domestic portion of their water use based on an assessed charge and will be billed by the Local Authority on behalf of Irish Water for all water usage in excess of current Local Authority domestic allowances of 227,000 litres. ICMSA believe it is impractical and totally inefficient to have a situation whereby non-domestic customers will be receiving eight separate bills in the year. ICMSA believe non-domestic customers should be given the option to pay their bills on an annual basis (Irish Water and Local Authority) as is the case heretofore. Cashflow and ability to pay on a quarterly basis is a particular concern for ICMSA members due to the cyclical nature of farm income.

In addition, current proposals will result in non-domestic customers being charged significantly different rates for the same water coming through the same meter.

Question 21

ICMSA do not agree with the unit rates for domestic customers which are far in excess of the rates currently being charged to non-domestic customers by Local Authorities. In many instances the proposed unit rate is double what is currently being charged by Local Authorities and ICMSA cannot accept a situation whereby farmers are effectively being charged double for the exact same water that is being used in the family home compared to the portion being used for the farm business.

Question 22

ICMSA has concerns that non-domestic customers will be subjected to additional and unnecessary costs for the domestic portion of their water as a result of being billed on an assessed basis. ICMSA believe it is essential the CER ensure non-domestic water charging policy is addressed as a matter of urgency.

ICMSA believe that the facility should be available for a non-domestic (mixed-use) customer to have the domestic portion of their water use metered if the mixed-use customer requests same.

ICMSA believe the CER must keep water and wastewater charges for unmetered customers under review as actual usage data from metered households becomes available.

Question 23 and 24

ICMSA do not agree that a default tariff should apply to customers that do not validate before the end of the campaign. Irish Water propose to send validation packs to all households in the country, commencing 1st September 2014. However, Irish Water has stated that they believe there will be at least 350,000 households that won't be customers of Irish Water (Private Wells, Group Water Schemes, Septic Tanks). ICMSA believe this is a totally inefficient approach and believe there must be a more efficient method of targeting Irish Water customers.

It is not acceptable that Irish Water would incur such costs, which are ultimately being passed on to the end user, without examining all options available to ensure only households that are Irish Water customers receive validation packs.

ICMSA do not believe that, where a customer is late to validate, allowances are only applied from the date the customer validates. ICMSA has outlined our position on this matter in our response to question 18.

Question 25

ICMSA agree that the cap on customers' bills should be extended where a leak is identified.

Question 26

No - ICMSA believe there should not be a minimum unmetered period for customers to qualify for a rebate.

Question 27

The rebate should apply on a quarterly basis for the period that the customer was unmetered.

Question 28

ICMSA agree that there should be no minimum amount due in order to qualify for a rebate.

Question 29

It is not clear from the consultation document if the CER have differentiated between premises that are not permanently occupied - for example holiday homes - and other houses that are not occupied for extended periods. This is important from a farming perspective as many farms have more than one dwelling one of which may be unoccupied for a number of years and doesn't have any water usage. In addition, many farm households may have a water connection but do not use any water as they have a private well. ICMSA believe an €80 annual charge is excessive in such circumstances.

Question 30 and 31

The CER proposals on these matters are reasonable.

Question 32

No - ICMSA do not think that the Irish Waters proposed definition of Force Majeure is appropriate. The term or provision "*utility failure*" should be deleted from the definition. Given that the service is in fact a utility, the definition as it currently stands, could, in effect, cover every single occurrence where Irish Water fails to deliver the services which they are required to deliver to customers.

Question 33

ICMSA agree with the proposal as this system is now the norm with regard to payment options.

Non-domestic Water and Waste Water Charges

Questions 34 and 35

ICMSA understands that the position regarding non-domestic users is a holding operation until an enduring tariff is set. However, ICMSA believe there is an onus on the CER to ensure there is no cross subsidisation by non-domestic users of water and wastewater facilities. It is essential Irish Water and the CER provide clarity and assurance that the costs which are not now to be recovered by a fixed charge on domestic customers are not passed on to non-domestic customers.

ICMSA supports the establishment of a Large Users Group and believe farmers as substantial water users should be represented on this Group. ICMSA would welcome the opportunity to nominate an ICMSA representative to this Group to ensure the concerns and views of the farming community are adequately represented.

Question 36

ICMSA's views on this matter are similar to that outlined for questions 34 and 35.

Question 37

ICMSA has outlined our position on this matter in response to questions 21 and 22.

Questions 38, 39 and 40

The proposed discount for non-domestic customers is unacceptable and must be reviewed for certain industries that are highly dependent on the availability of quality water. ICMSA believe such discounts are especially important in the farming sector, particularly dairy farming, as there is a high requirement for potable water.

If water is unfit for human consumption then it cannot be used in a milking parlour and the cost to a farm business will be considerable, therefore, ICMSA believe discounts in excess of those proposed must be made available to farm businesses.

Question 41

While it might be acceptable for some delay on the part of Irish Water in providing CER with reliable data on these costs, CER should set a definitive date for this information to be passed on to the CER. ICMSA would suggest a date not later than 1 May 2015.

Question 42

ICMSA does not agree with Irish Water's proposals regarding charges for additional services to domestic and non-domestic customers. The costs outlined are extremely excessive and completely unacceptable.