



**national consumer agency**  
gníomhaireacht náisiúnta tomhaltóirí

putting **consumers** first

## **National Consumer Agency Submission to the CER's Consultation Paper on the Water Charges Plan**

### **1. Introduction**

- 1.1.** The National Consumer Agency ('Agency') welcomes the opportunity to comment on the Commission for Energy Regulation's ('CER') consultation paper concerning the 'Water Charges Plan'<sup>1</sup> ('Consultation'). The Agency is conscious of the very short timeframe given to introduce water charging and it is regrettable that such a timeframe affords so little time to fully consider the implications of decisions which will have such a significant impact on consumers in the coming years. For that reason the Agency is in full agreement with the CER that ongoing review and monitoring of the sector is essential to ensure that it is operating as intended and required.
- 1.2.** Comments in this response are limited to matters concerning domestic consumers only. In addition, views are only offered to selected questions which the Agency feels are of particular relevance and importance to consumers.

### **2. High Level Comments**

#### **2.1. Efficiency**

- 2.1.1.** The Agency considers the creation of efficiencies in the provision of water services to be of utmost importance. Therefore, it is crucial that Irish Water's performance is accurately monitored and evaluated. The final charges that are levied on consumers are, to a large extent, determined by the costs incurred by Irish Water in the provision of water and wastewater services. As such, regular in-depth and independent reviews of Irish Water's costs are a key requirement. Relevant and meaningful short, medium and long term Key Performance Indicators ('KPIs') for Irish Water should be developed, published and regularly evaluated. It is the Agency's view that monitoring and publication of such metrics would contribute significantly to the transparency of water sector reform from a consumer perspective.

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<sup>1</sup><http://www.cer.ie/docs/000979/CER14366a%20Water%20Charges%20Plan%20Consultation.pdf>

### **3. General Observations and Responses to Selected Questions**

#### **3.1. Irish Water's Establishment Costs**

*Question 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?*

- 3.1.1. The Agency believes that all allowed establishment costs should be fully accounted for and an independent assessment made to determine if they were appropriately and efficiently incurred. The Agency notes that the CER's role is not to revisit the merit or justification of these expenditure categories, but to review if the costs under those categories were efficiently incurred. Taking this into account and considering the expertise available to the CER in undertaking the benchmarking analysis, the Agency agrees with the proposed reduction to Irish Water's establishment costs.

#### **3.2. Capital Investment Plan, Project Prioritisation and Monitoring**

*Question 4: Do you agree with Irish Water's approach to prioritisation? If not, please set out your views on an alternative approach to this matter.*

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

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

- 3.2.1. The Agency would agree with the need for an output monitoring group which would (i) provide a structured and transparent approach to capital investment project prioritisation, (ii) monitor capital expenditure output indicators and (iii) review the efficiency of Irish Water's capital maintenance expenditure. The terms of reference and composition of the group requires further consideration but at a minimum it should ensure that key stakeholders including consumers are fully represented.

#### **3.3. Operational Expenditure**

*Question 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.*

- 3.3.1. The Agency notes that 66% of Irish Water's submitted operating costs, €1,655m, are associated with Service Level Agreements ('SLAs') and that the duration of these agreements is twelve years. As a result, the Agency would question what the potential for driving efficiencies is in reality? Any possible clarification in this regard would be welcome. In this context, the Agency reiterates its view that the CER should put in place any and all mechanisms to ensure efficiencies are created in the delivery of the services.

3.3.2. The Agency notes that according to the CER's analysis, the proportion of Irish Water's operating expenditure which is spent on employment costs is 29.3%. The Consultation paper acknowledges this is high when compared with UK companies and that overall Irish Water's operating costs are above UK comparator entities. While not having access to the CER's detailed analysis, the Agency would support the CER's proposed cumulative reduction in operating costs of approximately 14% by the end of 2016. It is noted that this is significantly higher than that suggested by Irish Water in its submission to the CER. While it is not clear what will happen after 2016, it is assumed that further reductions will be considered by the CER in due course.

3.3.3. The Agency welcomes the concept of the proposed innovation fund to encourage Irish Water to invest in research and innovation projects. However, the Agency considers it is vitally important that any expenditure to be incurred under the innovation fund should be reviewed by the CER in advance. Furthermore, the case for any proposed spend should be made on the basis of a detailed project plan, with accompanying cost benefit analysis.

### **3.4. Improving Customer Service Levels**

*Question 13: Do you agree with our proposed approach to incentivising improvements in quality and customer service? Are there any other aspects of Irish Water's customer service that you would expect to see covered in the proposed reporting and incentive mechanism?*

3.4.1. The Agency agrees with and welcomes the CER's approach to incentivising improvements in quality and customer service. It is vital that there are clear and recognised customer service levels against which Irish Water can be measured. The Agency believes that it is important that the 'partial overall performance assessment', where the CER deems feasible, should be implemented from the beginning of the interim regulatory period, in order to aid transparency and ensure that efficiencies and service level improvements are being made and demonstrated as being made from the earliest opportunity.

### **3.5. Monitoring**

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

3.5.1. The Agency agrees with the establishment of an Output Monitoring Group by the CER. As above, such monitoring of performance should begin as soon as is feasible.

### **3.6. Child Water Allowance**

*Question 17: Do you agree with the proposal to change the child allowance from 38,000 litres to 21,000 litres a year?*

3.6.1. The Agency does not have sufficient evidence to comment on the reduction of the child allowance from 38,000 litres to 21,000 litres per year. However, in light of available evidence an amount less than 38,000 litres does seem appropriate. As a result, the Agency concurs with the CER's view that it will continue to monitor the appropriate volume of the child allowance during the interim regulatory period and will review the allowance when more robust evidence of normal child consumption is available.

### **3.7. Water and Wastewater Services**

*Question 19: Do you agree with CER's proposal that Irish Water provide water and wastewater services to customers where domestic tariffs are calculated on a national basis, with separate tariffs for water and waste calculated on a 50/50 cost basis? If not, please state why.*

- 3.7.1. The Agency notes that this proposal is made in the absence of sufficient information on wastewater costs, which if available would allow a more precise split between water and wastewater charges. Considering that one of the key principles of Irish Water's tariff design and structure is that the tariffs are to be cost reflective, the Agency considers it important that as more information becomes available, the CER reviews how costs are allocated between the relevant services. The Agency suggests that cost information be gathered without delay in order to assess the appropriateness of the costs incurred.

### **3.8. Billing Arrangements and Payment Options**

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

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

- 3.8.1. Yes, the Agency agrees that flexibility to pay on a monthly basis should be provided to domestic customers. The Agency is also of the view that the burden on consumers may be further eased if they have the ability to make regular instalment payments through shops and post offices, as is currently the case for other utilities such as gas and electricity.

### **3.9. Default Unmetered Charges**

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

*Question 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 not be available to the customer?*

- 3.9.1. The Agency is of the view that there may be potential for, in particular older and more vulnerable consumers, to not fully appreciate the implications of failing to return the required information in the allowed timeframe, which is relatively short. As a result, perhaps the issue of giving retrospective allowances should not be ruled out in all circumstances, as has been proposed.

### **3.10. Capped Charges**

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

- 3.10.1. The Agency agrees with the proposals in relation to leaks. The Agency would question, however, if 6 months is a sufficiently long amount of time for consumers to be able to alter their behaviour. The CER's suggestion that this time period will be kept under review is therefore welcome and considered prudent.

### **3.11. Rebates**

*Question 25: Do you think there should be a minimum unmetered period for customers to qualify for a rebate?*

*Question 26: Do you agree with either of the CER proposals to operate the rebate? If so, please indicate a preference and if not, please provide detail of how you think rebates should be applied?*

- 3.11.1. The Agency agrees with the CER's proposal that no minimum time period for rebates should apply. The introduction of rebates will demonstrate fairness on behalf of Irish Water and the regulator. A full rebate per quarter would appear reasonable to consumers, whilst not being overly burdensome to Irish Water from an administration perspective.

### **3.12. Water Unfit for Human Consumption**

*Question 30: Do you agree with the CER's proposed definition of long term i.e. 3 months?*

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

- 3.12.1. The Agency agrees with the CER's proposal to define 'long term' as 3 months, as opposed to Irish Water's view that long term constitutes a 6 month period. The proposed discounts accruing where water is unfit for human consumption would appear reasonable, particularly in light of the CER's comment that just 15-20% of household water consumption is directly consumed or used in food preparation.

### **3.13. New Connections**

*Question 41: Do you agree with Irish Water's proposals as outlined above regarding domestic and non-domestic connection charges?*

- 3.13.1. The Agency welcomes the CER's proposal to not consider a connection charging proposal until it has been provided with more detailed information by Irish Water. It is important however that a cost reflective connection charging policy is determined as soon as possible.

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