



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

**Response to Irish Water's
Draft Water Services Strategic Plan**

**CER/15/078
17th April 2015**

Introduction

The Commission for Energy Regulation ('the CER') welcomes the opportunity to comment on Irish Water's draft Water Services Strategic Plan ('the draft Plan'). The draft Plan presents a valuable opportunity for Irish Water to meaningfully engage with its stakeholders including, most importantly, the customers that it exists to serve.

As the economic regulator of Irish Water, the CER is tasked with deciding upon the monies allowed to Irish Water to deliver safe, secure and sustainable water services to its customers to defined standards and with ensuring that Irish Water does so in an economical and efficient manner. The CER is required to carry out these functions in a manner that best serves the interests of customers of Irish Water. Our response is informed by the above and is in recognition of the fact that Irish Water faces many challenges, not just those expressly highlighted in the draft Plan, but also the need to build customer trust and confidence in the new utility and to appropriately balance and prioritise competing objectives where funding constraints exist.

Irish Water must deliver on its objectives and targets in an efficient manner, providing value for the customers it serves. This should facilitate sustainable customer revenues and investor confidence which in turn will result in access to finance on the markets at competitive rates. This will support a sustainable approach to funding which will enable the delivery of required outcomes for customers.

The remainder of this response is drafted with the above in mind.

Meeting Customers' Expectations

In his Direction to Irish Water regarding the draft Plan, the Minister stated that a strong customer focus should be integral to the Plan. The CER concurs with this and notes the inclusion in the draft Plan of an objective to meet customer expectations with the associated strategic aim to establish both customer trust and a reputation for excellent service through delivery of Irish Water's defined strategies. In order to do this, the CER considers that meaningful engagement and communication with customers is crucial. Proactive participation by Irish Water in the Public Water Forum once established will be an important part of this engagement.

The draft Plan states that Irish Water will develop a Customer and Stakeholder Communication Strategy which will set out a roadmap towards full and open two way engagement. The CER recommends the inclusion of a defined timeline for the publication of the Strategy and the commencement of its implementation in the final Plan. The CER welcomes Irish Water's commitment to complying in full with the obligations set out by the CER in the Customer Handbook. The Handbook sets out the minimum customer service

standards that are currently required of Irish Water. The CER will monitor and periodically publish Irish Water's performance against these minimum requirements, commencing in the third quarter of this year.

Data: The Basis for Measurement of Performance & Delivery

The CER supports the inclusion of defined, time bound deliverables and targets in the draft Plan, noting that delivery of these is contingent on the CER's decisions regarding the associated costs and Irish Water's ability to access necessary funds. The CER is of the view that Irish Water should commit in the final Plan to periodically publishing information regarding its performance against the targets it sets for itself in that Plan.

Key here is the ability to define the current position or baseline such that performance can be assessed against this. Customers paying for services need to see what has been delivered for monies paid. Unfortunately, robust information regarding the current baseline is not yet available in all cases.

It is vital that accurate data regarding all aspects of Irish Water's business is available and collection and collation of this data must be prioritised. This is necessary for the CER to monitor Irish Water's performance. In addition to monitoring performance under the Customer Handbook (please see below), the CER is also putting in place a process to monitor delivery of Irish Water's Capital Investment Plan, with monitoring due to commence in the second quarter of this year. An overall performance assessment framework is currently being developed which will require Irish Water to report on a number of defined metrics across a number of areas including water supply, sewerage service, environmental performance and customer service. This will allow the CER to monitor Irish Water's performance over time in these areas and to compare its performance against other water utilities. The CER will publish information periodically regarding Irish Water's performance against this framework.

Whilst the need to prioritise the gathering of information regarding the condition of Irish Water's assets is recognised in the draft Plan, the CER considers that this should be expanded to include other key data requirements where robust data is currently not available. Additionally, the draft Plan should include defined, time bound targets for the collection and collation of relevant data. The draft Plan includes a number of implementation plans that sit under the strategic plan. It would be useful to include the timelines for the delivery of these plans in the final Plan.

Affordability versus Efficiency

The CER notes the references to affordability throughout the draft Plan. The CER recognises that affordability is a key issue for customers and via the Customer Handbook requires that Irish Water offer payment plans for customers in arrears and to take into account a customer's ability to pay when

doing so. These requirements are reflected in Irish Water's Code of Practice on Billing and commitments to customers therein. Whilst the CER recognises that affordability is an important matter, we note that this is primarily a matter for Government consideration when formulating water and other policies. The work of the Inter-Departmental Working Group on Affordability Measures under the Water Sector Reform Programme is noted here for example.

The CER notes that affordability can be considered at a higher level when it comes to meeting obligations on Ireland as an EU Member State under the Water Framework Directive. Here, the Government decides how to prioritise delivery of required measures and what sectors face what portion of the associated costs.

The CER operates within Government policy on this issue and our focus under legislation is to ensure, when carrying out our functions, that water services are provided by Irish Water in an economical and efficient matter. It is important that the final Plan accurately reflects the respective roles of Government, the CER and Irish Water in relation to affordability.

Balance, Prioritise and Optimise

It is recognised that significant capital investment is required in relation to both water and wastewater service provision in order to facilitate the continuity, safety, security and sustainability of water services. This presents a number of competing objectives, for example, the need to address capacity issues, including via conservation measures, and the requirement to comply with environmental regulations. Funding constraints dictate that prioritisation is required and the CER welcomes the fact that the draft Plan sets out Irish Water's current priorities for parties to comment on. The CER considers that Irish Water's approach to prioritisation should be published. Consideration should be given to matters such as relative costs, benefits and risks of projects while seeking to appropriately balance investment across the country. Investment should be optimised across maintenance of existing assets, conservation and new infrastructure.

The CER welcomes the inclusion of a number of 'tier 2' plans pertaining to Irish Water's assets in the draft Plan, including an Irish Water water resource plan, regional water conservation strategies, an Irish Water wastewater compliance strategy and the intention to complete Drinking Water Safety Plans for all water supply zones. As above, defined timelines for the delivery of these plans should ideally be included in the final Plan.

Prudent Facilitation of Growth

The CER acknowledges the requirement for Irish Water to ensure as far as practicable that the Plan is consistent with the National Spatial Strategy and regional planning guidelines. It is also recognised that, in drafting the Plan, Irish Water must have regard to a number of matters including proper

planning and sustainable development, strategic development zones and housing strategies. In planning the provision of water and wastewater services to meet projected demand it is important to proceed in a prudent manner based on best evidence available to minimise the risk of stranded assets. Use of existing assets should be maximised in a cost effective manner coupled with sufficient emphasis on conservation measures.

This is reflected in Irish Water's stated approach to planning the water and waste water systems in the draft Plan whereby an evidenced based approach based on realistic projections and appropriate planning timelines will be employed whilst maximising capacity and use of existing assets. The cost-effective use of modular design for new assets and a phased approach to construction set out in the draft Plan are also noted. These approaches will feed into Irish Water's capital investment plan and other information regarding Irish Waters costs which is periodically submitted to the CER for review and decision.

The standards and metrics used by Irish Water to plan the system and to assess the capacity of existing assets in that context are an important consideration. The CER intends to request information from Irish Water regarding these standards and metrics, including, for example, the methodology for determination of headroom, as part of the next price control, given their impact on Irish Water's capital investment plans and costs.

Connection Policy

The draft Plan sets out Irish Water's views on some of the principles that underlie connection charges. For example, it is stated in the document that developers will be able to build their own connections subject to designing the connection to standards specified by Irish Water and signing a connection agreement. It also states that a national approach to charging will apply and addresses the issue of who bears the 'strategic' costs associated with connections versus the 'local' costs.

The CER will consult on connection charging principles, on the charging methodology, including the matters set out in the draft Plan, and on the associated connection charges. The CER will consider Irish Water's views on the principles, methodology and charges, along with the views of all respondents to our consultations, before reaching our decisions on these matters.

Research and Innovation

The CER welcomes the inclusion in the draft Plan of reference to research and innovation and the intention to avail of opportunities to adopt new technologies developed by others. The intention to collaborate with academia to maintain up to date knowledge of innovations that could be applied by Irish Water to the benefit of customers is also supported.

The CER has provided for an innovation fund to encourage Irish Water to invest in research and innovation projects with a view to addressing issues across the Irish water network. To avail of the fund, innovation projects which Irish Water proposes to complete are required to meet criteria defined by the CER.
