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Information Note

Establishing Irish Water's Non-Domestic Tariff Framework

Non-domestic customers of Irish Water continue to pay tariffs for water and wastewater services which were previously determined and charged by the 34 Local Authorities and 10 Town Councils. This Information Note, prepared by the Commission for Energy Regulation ('CER'), concerns the establishment of a new Non-Domestic Tariff Framework which will apply to Irish Water's non-domestic water and wastewater customers. The Framework will introduce harmonised non-domestic tariffs, which will benefit customers in terms of transparency, simplicity and equity.

In regulating Irish Water, the CER seeks to ensure that Irish Water is run as efficiently as possible while providing appropriate water and wastewater services to the public. The CER will ensure that a fair and transparent system of charging for non-domestic customers is implemented. This will be against a background of Irish Water services needing significant new investments both to modernise an ageing network as well as meeting EU standards.

Irish Water and the CER have agreed a plan to establish the Non-Domestic Tariff Framework over the next two years. This Note describes the approach to developing the Framework and informs interested parties of the plans for consultation during 2017 and 2018. The CER wishes to involve all customers and other interested parties throughout the project by proactively seeking their views. As part of this engagement process, the CER is also establishing a non-domestic water user group to understand the needs and priorities of non-domestic customers as regulatory policies are developed over the coming years.

Background

As part of the Government's reform of Ireland's water and wastewater services, Irish Water has been responsible for charging non-domestic customers since 01 January 2014. The CER's role as economic regulator of Irish Water is to protect the interests of water customers, ensure water services are delivered in a safe, secure and sustainable manner and that Irish Water operates in an economic and efficient manner. Under the Water Services Act (No.2) 2013 the CER also has the responsibility of approving the charges applied by Irish Water to non-domestic customers for water and wastewater services. As per the CER's direction (CER/15/001), Irish Water has continued to apply the existing non-domestic tariffs,

which were in place on 31 December 2013 and levied by the Local Authorities and Town Councils, until a project could begin to examine the future of such tariffs.

Currently there is a wide range of non-domestic tariff levels, tariff categories, billing methodologies, billing arrangements and billing cycles applied across the country. This complex and varying range of non-domestic tariff structures evolved under the previous water industry structure, overseen by 44 different Local Authorities and Town Councils. The purpose of the Non-Domestic Tariff Framework Review is to generate a harmonised suite of tariffs for non-domestic customers. A harmonised approach will benefit customers in terms of transparency, simplicity and equity.

Currently there are approximately 189,000 non-domestic water and wastewater connections of Irish Water, which range from small retail outlets to large industrial connections.

Non-Domestic Tariff Considerations

Some of the key challenges and considerations of this project are outlined below:

1. Differences in Existing Tariffing Arrangements

Currently there are 31¹ distinct billing authorities (effectively, the Local Authorities acting as billing agents for Irish Water²) operating in the non-domestic water and wastewater sector in Ireland. This has resulted in each billing authority developing its own method of charging for water services. The variability in existing tariffing arrangements³ include metered charges, unit rates, standing charges, unmetered charges and charges for trade effluent. The Framework will take account of the above differences and carefully consider the impact of the proposed new tariffs on customers.

2. Transitional Considerations

Moving to a harmonised tariff arrangement is likely to result in tariff changes for many customers. It is important therefore to consider the implementation of a glidepath(s) to gradually transition customers from their existing tariff arrangements to the enduring arrangements. The purpose of the transitional arrangements will be to ensure changes to customer's bills are implemented in an equitable and reasonable manner.

3. Quality of Historic Consumption and Billing Data

The CER is aware that there is an inconsistency in how the consumption and billing data of non-domestic customers was recorded and stored by each Local

¹ The Local Government Reform Act 2014 came into effect on 1st June 2014 and dissolved town councils and amalgamated some LAs reducing the number of LAs from 34 to 31. 44 sets of tariffs remain given that charging structures have been frozen since 01 January 2014.

² Irish Water is currently in the process of migrating all non-domestic customer consumption and billing information from each of the Local Authority to Irish Water's billing system to allow Irish Water to bill customers directly.

³ There are 44 different sets of tariffs for non-domestic customers, one for each LA and one for each town council that levied charges prior to 01 January 2014.

Authority. Irish Water has collected the necessary data to carry out the analysis required to develop their tariff proposals however there may be limitations in the data available to Irish Water.

4. Historical Arrangements

Another consideration is the number of legacy arrangements that may currently exist. Legacy arrangements may include historical agreements or contracts entered into by a customer with a Local Authority, which may include legally binding bespoke provisions relating to the provision of water services. The extent and detail of such arrangements will need to be fully examined when developing the enduring tariff Framework.

5. Mixed-Use Customers and Tariff Structures

Customers that use water services for both domestic and non-domestic uses are termed Mixed-Use Customers. The Framework will need to consider the appropriate tariff structure for such customers, taking account of the existing decisions on domestic water and wastewater charges.

6. Differences in Existing Billing Arrangements

As well as variability in the existing tariffing arrangements, billing cycles (ranging from monthly, quarterly, three times a year, biannually or annually) and payment terms also vary across the country. The existing billing arrangements will also be reviewed under the Framework and consideration given to standardising billing arrangements.

Opportunities for Consultation

The CER has agreed the timeline for the establishment of the enduring Non-Domestic Tariff Framework with Irish Water. Irish Water is currently progressing the development of its tariff and transitional proposals. The public consultation phase of the project will begin in Q1 of next year (2017), with the publication of separate CER and Irish Water Information Papers which will provide greater information on the existing tariffing arrangements, and further discuss key elements of the project. The CER has decided to approach the consultation on Irish Water's Non-Domestic Tariff Framework in four phases. Further information on each phase is provided in Appendix 1 of this Information Note.

Implementation Timeframe

Irish Water are currently in the process of migrating all non-domestic customer billing systems from the Local Authorities to Irish Water. A primary project assumption is that all non-domestic customers will be billed their existing Local Authority charges by Irish Water in advance of any tariff changes agreed under this project. As outlined above, the CER expects to be in a position to publish its decision on the final non-domestic tariff rates under the Non-Domestic Tariff Framework in Q1 of 2018. Please

note that these final non-domestic tariff rates will incorporate any decisions made by the CER in Q2 2017 regarding the arrangements to gradually transition customers from their existing tariffs to the new enduring tariffs. There will also be a period of time before these new tariff rates will be applied to non-domestic customers. At this time, Irish Water has indicated that it expects to implement new non-domestic tariff rates from Q2 2018.

Engaging with the CER

As this project will represent a significant change to the approach to charging of non-domestic customers, the CER would like to take this opportunity to encourage stakeholder participation at each phase of the project. In addition to the public consultations where the CER will be seeking views on each of Irish Water's proposals, the CER will be forming an industry group to facilitate engagement with the business and industry community. This non-domestic water user group will allow the CER to understand the needs and priorities of businesses as regulatory policies, and in particular the Non-domestic Tariff Framework, are developed over the coming years. It is planned that this group will meet quarterly.

Further Information

For further information on this Information Note and the CER's non-domestic water user group, please email the CER at ndtariffs@cer.ie or call (01) 4000 800. Additionally, further information can be sought by posting requests to the following address:

The Commission for Energy Regulation
The Exchange
Belgard Square North
Tallaght
Dublin 24

Appendix 1 – Proposed Consultations & Timelines

The development of some of the consultation proposals is dependent on the completion or a decision made on others. Therefore the groups of consultation papers are sequenced to take account of these dependencies. Phase 1 papers will be published first, followed by the Phase 2 consultation and decision papers, and then the Phase 4 consultation and decision papers. The Phase 3 papers will be published in parallel to the Phase 4 papers. This project approach is further outlined in the table below.

Paper Grouping	Paper	Proposed Scope of Paper	Proposed Publication Timeline
Phase 1 Papers	CER Information Paper	The purpose of this paper is to inform interested parties and the industry that the CER will be undertaking a project to determine the Non-domestic Tariff Framework. This paper will set out the key challenges of the project, identify the suite of tariff principles that the CER issued to Irish Water to guide the design of the new non-domestic tariffs and detail the CER's consultation approach, consultation papers and associated timelines.	Q1 2017
	Irish Water Information Paper	The purpose of this paper is to detail current non-domestic tariff and billing arrangements and highlight the different approaches taken across Local Authorities.	Q1 2017

<p>Phase 2 Papers</p>	<p>CER Consultation Paper - Irish Water's proposed Tariff Design and Transitional Arrangements</p>	<p>This Paper covers the following topics:</p> <p><u>Geographical Basis for Charging</u> – Considers if there should be one single national tariff regime or if tariffs should vary across different geographical locations.</p> <p><u>Customer Classification</u> – Explores different methods of how groups of non-domestic customers could be categorised for the purposes of tariffing.</p> <p><u>Tariff Structures</u> – Considers different tariff structural options (e.g., two part tariffs (volumetric and standing)) available in designing the enduring tariffs for both metered and unmetered customers.</p> <p><u>Cost Allocation</u> – Examines the cost allocation methodologies that could be used to allocate costs of providing water and wastewater services to particular customer categories.</p> <p><u>Transitional Arrangements</u> – Given the wide range of existing charges, structures and application of non-domestic water and wastewater tariffs, the paper will explore transitional periods and glide path options to ensure customer bill changes are implemented in an equitable and reasonable manner.</p>	<p>Q1 2017</p>
	<p>CER Response and Decision Paper - Irish Water's Tariff Design & Transitional Arrangements</p>	<p>The CER's decision on the tariff design elements relating to the geographical basis for charging, customer classification, tariff structures, cost allocation options as well as the transitional arrangements.</p>	<p>Q2 2017</p>

Phase 3 Papers	CER Consultation Paper - Proposed changes to Irish Water's Non-Domestic Customer Handbook	Sets out proposed amendments to the customer service level requirements set out in the Codes of Practice and Terms and Conditions for water services for non-domestic customers provided for in the Irish Water Customer Handbook.	Q4 2017
	CER Response and Decision Paper - Irish Water's Non-Domestic Customer Handbook	The CER's decision on amendments to the non-domestic sections of the Irish Water Customer Handbook. Thereafter, Irish Water will submit Non-domestic Codes of Practice and Non-Domestic Terms and Conditions for water services in line the Customer Handbook for approval by the CER.	Q1 2018
Phase 4 Papers	CER Consultation Paper - Irish Water's Water Charges Plan - Non-Domestic Tariff Rates	Consultation on Irish Water's proposed tariff rates (for example, standing charge and unit rate levels) to apply to non-domestic customers. These rates will reflect each of the decisions made throughout the project on key aspects of the Framework such as tariff structures, geographical basis for charging, customer classification, cost allocation and transitional arrangements.	Q4 2017
	CER Response and Decision Paper – Irish Water's Water Charges Plan – Non-Domestic Tariff Rates	The CER's decision on the tariff rates to apply to non-domestic customers. This decision will set out the date from which the approved non-domestic tariff rates (including transitional arrangements) will apply to customers.	Q1 2018
Planned implementation of new non-domestic tariffs			Q2 2018