Irish Water’s Household Water Conservation Proposal
(Excess Use Charges)
CRU Consultation Paper
Customer Impact Statement

The Commission for Regulation of Utilities (CRU) is the independent economic regulator of Irish Water. Irish Water is the single national utility responsible for public water and wastewater services in Ireland and is tasked with operating, improving and investing in the water and wastewater systems to provide safe, reliable and high-quality services to customers.

In line with its legislative functions, the CRU is consulting on Irish Water’s household water conservation proposal. The Government in its Water Services Policy Statement (WSPS) 2018–2025,¹ noted that clean, useable water requires a considerable investment of resources, energy, capital and labour. In this regard, the CRU considers that it is sensible to promote conservation of existing resources as part of a suite of measures to improve the standard of water services in Ireland.

Extreme weather events of 2017 and 2018 brought into focus how precious and vulnerable a resource that water is, notably the two major storm events (Ophelia and Eleanor), along with a prolonged dry spell in summer 2018. These events tested Irish Water’s ability to provide an adequate supply of clean water to the public.

As noted in the WSPS, with increasing water services demand and greater rainfall variability due to climate change; conserving supplies through reducing per capita demand, eliminating leakages and wastage as far as practicable, and effective management of water and wastewater capacity is becoming increasingly important.

In 2017, legislation was introduced which sets a household water allowance and provides for charging customers who use above a certain threshold. This encourages households to conserve water and, where possible, identify and fix leaks in their water supply. Excessive use charges are intended to promote conservation and personal responsibility for water use and help Ireland meet the requirements of the Water Framework Directive.

The household water allowance is 213,000 litres per year. Household usage up to this level will be funded publicly through general taxation. Households that use more than 213,000 litres will be charged for the excess use over this allowance. This charge is known as the “excess use charge”. The charge places responsibility on domestic customers to contribute to the cost of using water above the annual allowance, or to reduce their consumption to avoid the charge. Households with more than four occupants can apply to Irish Water for a higher household allowance. Prior to incurring the charge customers will receive notification from Irish Water that they may be subject to the charge and will have time to reduce their consumption before they receive a bill from Irish Water. Customers with a medical need may apply to Irish Water for an exemption from the charge.

Irish Water provides information on how to reduce water consumption on its website.\(^2\)

The CRU is today, 12 March 2019, publishing a consultation paper on Irish Water’s proposals regarding the excess usage charge. It is the role of the CRU to approve charges for customers by approving Irish Water’s Water Charges Plan. Irish Water’s policy (published alongside this paper) sets out how a domestic customer may be liable for an excess usage charge, the process through which a customer may be billed, the level of the charge and how metered and unmetered customers will be billed.

The CRU and Irish Water’s analysis indicates that the top 10% of households account for almost 40% of water services demand. Of that 10% of high-usage households it is estimated that up to 60% may have leaks\(^3\). Customers that suspect they may have a leak should contact Irish Water as they may be eligible for their ‘First Fix Free’ Scheme. Fixing a leak may facilitate household consumption falling below the household annual allowance, and therefore avoid the excess charge.

Irish Water will inform domestic customers if they are using water above the annual household allowance. A ‘Call to Action’ letter will initially issue to those customers that appear to be using excessively. Official notice of apparent excess use will not issue until the CRU has approved Irish Water’s proposed charges. This is expected after this consultation closes and your views have been considered. Domestic customers will only be liable for charges if they continue to exceed the threshold amount in the 12-month period after receiving this notice. As a result, domestic customers who continue to use water excessively will not be billed until 2020 for any excess use in 2019. The CRU notes that Irish Water cannot reduce or discontinue the supply of water to a person for non-payment of the excess charge either temporarily or permanently.\(^4\)

For clarity, this paper provides a detailed description of the CRU’s understanding of the excess use charging process in Section 2 and sets out a diagram of the process in Appendix A. The CRU is seeking your views on Irish Water’s excess usage charge proposal as set out in Section 1.6. The CRU has provided a list of questions in Section 4. The CRU is particularly keen to hear your views on:

(i) whether the proposal will successfully promote water conservation;
(ii) the procedure Irish Water have proposed to assess, notify and charge customers;
(iii) the treatment of different customers types, i.e. metered and unmetered;
(iv) Irish Water’s proposed excess usage unit rate charge;

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\(^2\) [https://www.water.ie/conservation/conserve-water/](https://www.water.ie/conservation/conserve-water/)

\(^3\) Approximately 60% had a leak at some stage during the period 1st September 2017 until 31st August 2018.

\(^4\) The CRU expects that where the level of service is compromised, and water is deemed unfit for human consumption, Irish Water will not charge customers for any excess water services use (there may be charges for excess wastewater services use). This is in accordance with the previous Water Charges Plan for domestic charges (CER/15/001).
(v) the proposed cap on the excess usage charge; and,
(vi) the charging of unmetered customers who use excessively at this cap.

The CRU will consider your responses and views on Irish Water’s proposal. These responses will help to inform the CRU's decision, which it plans to publish in Q2 2019.
Executive Summary

Conservation is one of three key themes set out by the Government in its Water Services Policy Statement 2018–2025. The excess usage charge will promote conservation by providing a disincentive for customers to waste water, thus reducing the costs associated with providing domestic water services.

Under legislation, water use above the annual household allowance (213,000 litres) is considered excess use, and customers will be liable for excess use charges on the amount above this level. The annual household allowance is set at 1.7 times the average annual household usage of 125,000 litres. Households with more than 4 occupants will be able to apply for an additional allowance of 25,000 litres per additional occupant, and those with a medical need will be exempt from the charge.

Irish Water’s policy (published alongside this paper) sets out when a domestic customer may be liable for excess usage charges, the process through which a customer may be billed, and the design and level of the charge. The CRU is today, 12 March 2019, opening a consultation on Irish Water’s proposals regarding the excess usage charge.

In its proposal, Irish Water has explained the assessment and charging procedure for metered and unmetered customers. Irish Water has proposed an excess usage unit rate charge of €1.85 per 1,000 litres on usage above the annual household allowance. The charge will also apply to wastewater services at the same unit rate, i.e. customers that use both services would be liable to a €3.70 per 1,000 litres charge on the excess portion of use. While not set out in legislation, in addition, Irish Water has proposed to cap the charge at €250 per service per household. Again, if a customer uses both services, the annual capped charge will be €500. This charge is not intended to be unduly punitive but to be sufficient to encourage customers to be mindful of water use and to take measures to correct excess use. Unmetered customers will be charged at this cap, it is proposed.

The CRU requested that Irish Water take account of the following charging principles when developing its proposed excess use charges: cost reflectivity; equity and fairness; stability; simplicity; and, customer protection.

The CRU is of the view that Irish Water’s proposed charges broadly satisfy the CRU’s principles and provide an adequate incentive to change behaviour among customers that use water excessively.

6 The Minister will issue regulations that set out how additional allowances and exemptions are to be claimed and approved. These regulations will be published before the CRU publishes its decision on the excess use charge.
The CRU may consider it appropriate to transition from the proposed unit rate of €1.85 per 1,000 litres per service to a more cost-reflective approach following once the policy has had time to bed in. One approach that may be considered is to approve a charge for the duration of the next revenue control period to the end of 2024. The CRU would publicly consult on any proposals to review and update the charge in the future.

The CRU intends to keep the level of the cap under review to assess if it is appropriate as a water conservation measure. The CRU proposes that Irish Water should monitor and report on the usage of the top 10% of customers to the CRU. By reporting on this key performance indicator, the CRU can assess if the excess usage charge is successful in promoting water conservation.

The CRU is seeking your views on Irish Water’s excess usage charge proposal as set out in Section 1.6. The CRU is particularly keen to hear your views on:

(i) whether the proposal will successfully promote water conservation;
(ii) the procedure Irish Water have proposed to assess, notify and charge customers;
(iii) the treatment of different customers types, i.e. metered and unmetered;
(iv) Irish Water’s proposed excess usage unit rate charge;
(v) the proposed cap on the excess usage charge; and,
(vi) the charging of unmetered customers who use excessively at this cap.

The CRU will consider your responses and views on Irish Water’s proposal. These responses will help to inform the CRU’s decision, which it plans to publish in Q2 2019.
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1 Introduction

1.1 The Commission for Regulation of Utilities

The Commission for Regulation of Utilities (CRU) is Ireland’s independent energy and water regulator. The CRU was established in 1999 and now has a wide range of economic, customer protection and safety responsibilities in energy. In 2014, the CRU was appointed as the independent economic regulator of Irish Water. Our mission is to protect the public interest in water, energy and energy safety.

1.2 Legislative basis

The Water Services Act 2017 was enacted in November 2017 amending the Water Services Act 2007 (the 2007 Act) and the Water Services (No.2) Act 2013 (the 2013 Act). This act provided the basis for the introduction of excess use charges for domestic water customers.

Section 21 (6A) (a) of the 2013 Act, sets out that Irish Water shall charge for the provision of water services to a dwelling that exceeds the threshold amount. Section 21(2) of the 2013 Act sets out that the amount of the excess charge shall be calculated by Irish Water in accordance with the approved Water Charges Plan. In accordance with Section 22 of the 2013 Act it is the role of the CRU to approve charges for customers by approving Irish Water’s Water Charges Plan.

The framework for the excess usage charge is set out in legislation. It states that each household will receive an annual allowance (threshold) and no charges will apply for all water services used up to the threshold allowance. The threshold is set at 1.7 times the average annual household usage as calculated by the CRU (CRU/17/339). This resulted in an annual allowance of 213,000 litres for households with up to four occupants (inclusive). Households with more than four occupants would be able to apply for an additional allowance of 25,000 litres per additional occupant7. All water services demand above the threshold allowance is considered excess use and will be liable for excess use charges.

1.3 Excess usage charge and principles

Conservation is one of three key themes and policy objectives set out by the Government in its Water Services Policy Statement 2018–2025. In that statement, it is noted that conservation of water is an important theme as “the abstraction and treatment of water is costly and impacts on the natural environment. It is widely recognised that clean, useable water requires a considerable investment of resources, energy, capital and labour”.

The excess usage charge will promote conservation by discouraging excess use, thus ultimately reducing the costs associated with providing domestic water services. In addition, this charge helps to ensure compliance with Ireland’s EU obligations under the Water Framework Directive (polluter pays principle). The charge is not intended as a revenue raising measure. Irish Water has estimated that the monies collected through this charge will account for approximately 1% of its allowed revenue. It is expected that as customers identify and repair leaks, the numbers who are liable for this charge will decrease.

In addition to the aim of conservation the CRU set out several principles, which the CRU is of the view the proposed excess usage charge should reflect. Prior to Irish Water submitting its proposal to the CRU, the CRU requested that Irish Water take account of these principles when developing its proposal:

1. **Cost reflectivity**

Charges should be broadly reflective of the costs associated with the provision of water services. The principle of cost reflectivity aims to ensure that charges to customers for the provision of water services beyond the threshold amount is reflective of the overall cost placed on Irish Water in its provision of water services to these customers.

2. **Equity and Fairness**

Charges should be equitable and fair and should not unduly discriminate between customers, for example metered and unmetered customers, or lead to undue cross-subsidisation.

3. **Stability**

Charges should be stable and designed to ensure minimal volatility over time. This aims to protect customers from significant changes in charges from one year to the next relative to their usage beyond the threshold amount.

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4. Simplicity
The charging policy and the proposed charges should be transparent and easy to understand. Customers should be able to understand how charges are calculated. Processes by which customers can check their usage, apply for an additional allowance based on household size or an exemption for medical needs should also be accessible, clear and easy to understand.

5. Customer protection
Measures should be considered to ensure that customers who exceed the threshold amount are protected from unreasonably high charges.

The CRU acknowledged that conflicts and trade-offs can exist between these charging principles and that it may be necessary for Irish Water to strike an appropriate balance between the different principle objectives as necessary. Also, several aspects of the excess usage charge methodology (i.e. level of the household allowance) are already defined in legislation and therefore Irish Water’s proposal needs to be considered in that context.

1.4 Purpose of this consultation paper
Section 22 of the Water Services (No. 2) Act 2013 sets out that Irish Water should prepare a Water Charges Plan which specifies the manner and method by which charges shall be calculated; and that the CRU must approve this Water Charges Plan.

Irish Water has submitted a proposal on excess usage charges, which, following public consultation will amend the Water Charges Plan to incorporate excess usage charges.

In Section 2 of this paper the CRU has set out its understanding of the proposed excess use charging process. The CRU is now consulting on Irish Water’s excess usage charge proposal and is keen to hear views on Irish Water’s proposal in the context provided in Sections 1.2 and 1.3. The CRU will consider your responses and views on Irish Water’s proposal. These will help to inform the CRU’s decision, which it plans to publish in Q2 2019.⁹

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⁹ Depending on the volume of responses and considerations raised in the consultation period, the CRU may decide that it is appropriate to first issue a proposed decision, which would again be consulted upon. The CRU would once again consider all responses to the proposed decision after which a final decision would be reached.
1.5 Related Documents

The following documents have been published alongside this paper:

- Irish Water’s Household Water Conservation proposal Infographic (CRU/19/024a)
- Irish Water’s excess usage charge proposal (CRU/19/024b)

Information on the CRU’s role and relevant legislation can be found on the CRU’s website at www.cru.ie.

1.6 Structure of Paper

This consultation paper is structured in the following manner:

- Section 1 provides an introduction;
- Section 2 provides an overview of the excess use charging process;
- Section 3 provides an overview of Irish Water’s proposal;
- Section 4 provides a list of the CRU’s consultation questions; and,
- Section 5 highlights the next steps.

1.7 Responding to this paper

The CRU invites responses to the proposals set out in this paper by 23 April 2019, preferably by email to watercustomers@cru.ie. Alternatively, responses can be sent to:

Water Division,
Commission for Regulation of Utilities,
The Exchange,
Belgard Square North,
Tallaght,
Dublin 24.

Submissions on any of the points listed in this paper should be clear and specific, with analysis or rationale provided to support the views provided. Unless marked confidential, all responses may be published on the CRU’s website. Respondents may request that their response is kept confidential.

The CRU shall respect this request, subject to any obligations to disclose information. Respondents who wish to have their responses remain confidential should clearly mark the document to that effect and include the reasons for confidentiality.

Responses from identifiable individuals will be anonymised prior to publication on the CRU website unless the respondent explicitly requests their personal details to be published.

Our privacy notice sets out how the CRU protect the privacy rights of individuals and can be found here.  

10 https://www.cru.ie/privacy-statement/
2 Excess usage charge process – CRU Summary

In this section the CRU has presented a step-by-step written account of Irish Water’s excess usage charge process. For clarity this step-by-step guide should be read in conjunction with the diagram of this process, which is contained in Appendix A of the CRU’s consultation paper.

Phase 1 – Customer analysis and monitoring usage

Step 1. Customer analysis

Domestic customers can be categorised in two groups, those that have a water meter (metered) and those that do not have a meter (unmetered). In order to analyse the usage of metered and unmetered customers Irish Water will do the following:

A. For metered customers Irish Water will analyse meter read data to identify usage and, by extension, excess usage.

B. In the case of unmetered customers Irish Water will take the following steps to identify usage:
   - Through the analysis of water balances, leak alarms and other means, Irish Water can monitor and identify District Meter Areas (DMAs) where there appears to be excess use.
   - If a DMA shows greater usage of water services than expected for the area, a leakage and pressure investigation crew is dispatched. Through listening and measuring supply at different points, investigation crews can determine the households that appear to be using water excessively.
   - Where it is possible for Irish Water to install a meter, Irish Water will contact the customer and offer to install the meter. If the customer accepts the meter they will become a metered customer. If a meter cannot be installed, Irish Water will connect a flow monitoring device to the service pipe to monitor usage.

Step 2. Monitoring usage

Irish Water will assess the usage of customers by analysing meter data or flow monitoring device data over a rolling 12-month period.

The usage of customers that do not exceed the allowance will continue to be monitored for an ongoing 12-month period. A customer that does not exceed the annual allowance over a 12-month period will not be contacted by Irish Water and will remain in this phase of the process.

In the case that a customer exceeds the allowance over a 12-month period, this will be identified by Irish Water. This customer will then move to the next phase of the process.

11 A district metered area (DMA) is a discrete area of a water distribution network. DMA’s allow Irish Water to closely monitor flow and pressures through its telemetry system.
Phase 2a – Notification phase

Step 1. Irish Water issue “Call to Action” letter

Customers who exceed their allowance in a prior 12-month period will receive a “Call to Action” letter from Irish Water advising them that they have exceeded their ‘default’ annual allowance amount of 213,000 litres. This letter will contain information on the Irish Water ‘First Fix Free’ scheme, how to conserve water, the availability of additional allowances for households greater than four people and exemptions for medical needs. This letter will also advise that a notice will be issued if excess use continues and encourages customers to fix any leaks now rather than be liable for excess use charges in the future.

Customers that engage with Irish Water regarding the ‘First Fix Free’ scheme will be assessed. Those that are eligible should continue to engage with Irish Water until the leak is resolved. These customers will then return to “monitoring usage” phase above and their usage will continue to be monitored.

Step 2. Irish Water issue notice

A notice will be issued to customers who have continued to exceed their household allowance in a more recent 12-month period. The notice will inform customers that they will be liable for excess use charges if they continue to exceed their household allowance into the future. Specifically, excess use charges will apply if:

I. half the household allowance is exceeded over the following 6 months; and
II. the full household allowance is exceeded over the following 12 months from the date of the notice.

The notice will also contain information on how customers can apply for additional allowances and medical exemptions.

Phase 2b – Liability for charges

Step 1. Continued monitoring and requests for exemptions or additional allowances

Once customers have received a notice their usage will continue to be monitored over the next 6-month period. Customers are now liable for their usage above the allowance.

Customers may at this time apply for exemptions from the charge due to a medical need or apply for additional allowances in the case that the number of occupants in the household is greater than four.

Application forms will be available online or can be posted out by Irish Water upon request. The application form must be completed in full and signed by the customer (the Irish Water registered account holder). Following review of the application, Irish Water will inform the customer in writing if their application has been approved or declined or if further information is required. Incomplete applications will be held, and Irish Water may seek further information in some cases, to satisfy that the application is valid.

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12 As prescribed by section 53D of the 2007 Act.
Allowance approval letters will inform customers of their new household allowance amount. Exemption approval letters will inform customers that their household is exempt from excess use charges. The obligation remains with the customers to advise Irish Water of any subsequent changes to their circumstances.

**Step 2. Confirmation/Reminder letter – 6-month review**

At the end of the 6-month monitoring period from the date of the notice, customers will receive either A or B below:

A. A confirmation letter informing them that usage has reduced, and that it is no longer above the applicable allowance. The confirmation letter will be sent to customers whose household usage over the 6-month notice period is less than half their applicable annual allowance. These customers will return to the “monitoring usage” phase above and their usage will continue to be monitored.

B. A reminder letter informing them that if excess use continues they will be liable for excess use charges. The reminder letter will be sent to customers whose household usage over the 6-month notice period is more than half their applicable annual allowance. These customers move onto the final phase of the process.

**Phase 3 – Billing phase**

**Step 1. End of 12-month liability period**

At the end of the 12-month monitoring period from the date of the notice, customers will receive either A or B below:

A. Customer whose household use has not exceeded their annual allowance within 12 months from issue of the notice will receive a confirmation letter informing them that usage has reduced. These customers will return to the “monitoring usage” phase above and their usage will continue to be monitored.

B. Customers whose household has used more than their annual allowance within 12 months from issue of the notice will be issued an excess use charges bill, covering the 12-month period from the date of the notice, by Irish Water.
3 Irish Water’s Proposal

3.1 Introduction

This section provides a summary of the key elements of Irish Water’s proposal. Please see Irish Water’s proposal, published alongside this paper (CRU/19/024B), for full details.

3.2 Procedure - metered and unmetered customers

In accordance with the 2013 Act, Irish Water must establish usage in order to charge customers. The CRU set out the excess usage charge process in Section 2. Part of this process includes how Irish Water will identify usage at metered and unmetered households. The figure below conveys this process.

Approximately 60% of Irish Water’s domestic customers are metered. For the 40% of Irish Water’s domestic customers that are not metered, Irish Water will establish areas of high usage through analysis of district meter area data. If Irish Water considers that a customer may be using water excessively, it will offer that customer a meter to monitor consumption for the purposes of water conservation.

If an unmetered customer’s property appears to be using water excessively, and it is not possible to install a meter, Irish Water will use alternative technology (i.e. a flow monitoring device) to monitor use. Once either a meter or a flow monitoring device has been installed, Irish Water will then start to monitor the water consumption of the household, in the same way as households that have an existing meter.
3.2.1 Initial CRU considerations

The CRU’s initial view is that Irish Water proposal for the treatment of metered and unmetered customers meets the CRU’s principles. The principle of ‘equity and fairness’ is particularly relevant to this aspect of the proposal. In the CRU’s view the ability of Irish Water to identify which households are consuming in excess of the household annual allowance, and hence subject to a charge equitably between metered and unmetered customers is essential. If Irish Water were unable to charge unmetered customers, consuming in excess of the household annual allowance, the excess usage charge would be discriminatory, as it would apply to metered customers only, despite both categories (metered and unmetered) of domestic customers receiving the same water services from Irish Water. In addition, if unmetered customers were not exposed to the excess usage charge, there would be no incentive for this significant proportion (~40%) of all Irish Water customers to reduce their use.

By offering an unmetered customer the opportunity to install a meter, it maintains equity and fairness between customer types.

3.3 Derivation of excess usage charges

Customers may receive two water services from Irish Water – water supplied to your home and wastewater taken away. Some customers use only one water service, others have both. For example, some customers may have a septic tank and will pay for water but not wastewater services. If a customer uses both services, the amount of wastewater produced is set equal to the amount of water that is supplied.\textsuperscript{13} It is the responsibility of the customer to notify Irish Water of the services it uses.

All water services used above the threshold allowance (213,000 litres per annum) is considered excess use and will be liable for excess use charges. Irish Water has considered two options for setting unit charges to be applied to units of water and wastewater services used above the threshold allowance. Irish Water’s preferred option is Option 1.

Under Option 1 Irish Water proposes to set the charges at €1.85 per 1,000 litres above the threshold for customers with one service and at €3.70 per 1,000 litres above the threshold for customers with two services. These rates are the same unit rates that were used to calculate domestic water charges during the period 1\textsuperscript{st} January 2015 until 31\textsuperscript{st} March 2016.

\textsuperscript{13} The principle of water in/water out applies. Section 22 (9) of the Water Services (no 2) Act 2013 states that “for the purposes of calculation a charge under section 21, the amount of Wastewater discharged from a Premises is deemed to be equal to the amount of water supplied to that Premises, unless Irish water and the Customer agree otherwise.
Table 3.1: Option 1 - Volumetric unit charges for excess use (Source: Irish Water proposal)

<table>
<thead>
<tr>
<th>Volumetric Unit Charges</th>
<th>€ per 1,000 litres</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volumetric unit Water Supply charge</td>
<td>1.85</td>
</tr>
<tr>
<td>Volumetric unit Wastewater charge</td>
<td>1.85</td>
</tr>
<tr>
<td>Volumetric unit Combined Service charge</td>
<td>3.70</td>
</tr>
</tbody>
</table>

Option 2, which Irish Water considered but is not proposing, involves using the unit rates based on Irish Water’s proposed cost allocation exercise, currently being undertaken as part of the project to establish a new Non-Domestic Tariff Framework. The cost allocation exercise is examining the costs of providing water and wastewater services to both the domestic and non-domestic customer bases. The unit rate is then calculated by dividing the costs allocated to domestic consumers by the volume used by domestic consumers. This is calculated based on the CRU’s most recent allowed revenue decision for 2019 (CRU/18/211).

Table 3.2: Option 2 – Indicative domestic unit rates from Irish Water’s cost allocation exercise (Source: Irish Water proposal)

<table>
<thead>
<tr>
<th>Volumetric Unit Charges</th>
<th>€ per 1,000 litres</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volumetric unit Water Supply charge</td>
<td>2.00</td>
</tr>
<tr>
<td>Volumetric unit Wastewater charge</td>
<td>2.02</td>
</tr>
<tr>
<td>Volumetric unit Combined Service charge</td>
<td>4.02</td>
</tr>
</tbody>
</table>

Within its proposal Irish Water assessed these two options against the principles set out by the CRU in Section 1.3. The result of this assessment is that Irish Water proposes applying Option 1 i.e. 2015/16 domestic unit rates, to units of water and wastewater services used by households above their threshold allowance.

3.3.1 Initial CRU considerations

The CRU recognises that the choice of a unit rate will involve trade-offs between the principles provided to Irish Water. The application of a unit rate that remains stable regardless of the amount of water used above the threshold amount meets the principles of simplicity and stability. In addition, the €1.85 per 1,000 litre (per service) charge proposed by Irish Water results in charges that are easily understood by customers, as this value has previously been in the public domain.

CRU’s initial view is that Irish Water’s proposal to apply a unit charge to usage above the annual allowance is reasonable. Also, the charge was in place in the past, allowing for a degree of familiarity.

The CRU notes that the unit rate derived using the calculation underlying Irish Water’s proposed option, Option 1, is based on an appraisal of Irish Water’s efficiently incurred costs at IRC1, rather than the CRU’s recent allowed revenue decision for 2019. This means that it does not necessarily
meet the principle of cost-reflectivity.

By comparison the unit charge in Option 2 is derived from the CRU’s recent allowed revenue decision for 2019 and the costs of providing water and wastewater services to domestic and non-domestic customer bases, that have been assessed as part of the non-domestic tariff process.

However, the CRU’s decision on the cost allocation approach that forms the basis of the non-domestic tariffs has not yet been finalised. As this work is still ongoing, the CRU is of the view that this option would not be appropriate at this point. A CRU decision on the cost allocation approach is expected to be completed in mid-2019. Once this work is completed the CRU is of the view that it may be appropriate to transition after a period of time from Option 1 to the approach taken under Option 2 to ensure greater cost-reflectivity in the charge. However, in the interests of stability the CRU is of the view that it may be appropriate to keep the proposed unit rate in place until the end of the upcoming Revenue Control period (RC3), i.e. until the end of 2024. This would allow the CRU to assess over time if the charge is influencing customer behaviour and promoting conservation. At that point a transition to a more cost-reflective charge may be considered. The CRU would again publicly consult on any proposals to review and update the charge in the future.

In addition, the CRU notes that the calculation used to derive Option 1 is in itself reasonably cost-reflective, as the resulting unit rates are similar (€3.70 per 1,000 litres for water and wastewater services in comparison to €4.02 per 1,000 litres), thereby indicating that Option 1 does not fall significantly short of meeting this principle.

### 3.4 Cap on excess usage charges

The CRU’s principle of customer protection states that measures should be considered to ensure that customers who exceed the annual household allowance are protected from unreasonably high charges. As a result, while the legislation did not specify a maximum charge, Irish Water proposes a cap on the maximum charge as set out in the table below.

<table>
<thead>
<tr>
<th>Maximum Excess Use Annual Charge</th>
<th>€ per year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum Water Supply charge</td>
<td>250</td>
</tr>
<tr>
<td>Maximum Wastewater charge</td>
<td>250</td>
</tr>
<tr>
<td>Maximum Combined Service charge</td>
<td>500</td>
</tr>
</tbody>
</table>

Irish Water is of the view that the proposed cap strikes an appropriate balance between encouraging household water conservation while also ensuring that customers are protected from unreasonably high charges.

In addition, Irish Water has proposed that if excess use is confirmed at an unmetered dwelling, and a meter is not installed, excess use charges will be applied at the capped excess usage charge of
€250 for one service or €500 where a customer uses both services.

3.4.1 Initial CRU considerations

The CRU’s initial view is that Irish Water’s proposal to apply a cap on the charge is reasonable and may achieve the CRU’s principle of customer protection. The CRU is of the view that careful consideration should be given to the appropriate level of the cap. The cap should strike the balance between protecting customers from unreasonably high charges while still providing an incentive for customers to conserve water. Recent analysis of metered data suggests that approximately one-third of customers that currently use water above the annual allowance amount, use water at or above the volume equivalent of the cap, i.e. these customers use over €500 worth, based on a combined charge for water and wastewater of €3.70 per 1,000 litres. This analysis indicates that, based on historical data, if households did not adjust their consumption (or fix existing leaks), then approximately one-third of customers subject to the excess usage charges would see those charges capped. Without the proposed cap, some customers may be unaware of the implications of high usage and face a bill that runs to several multiples of the capped level. Vulnerable customers need to be considered in this context also.

Regarding the level of the cap, the CRU notes that while excess usage charges are uncommon in an international context, annual charges of €250/€500 for one or both services are broadly reflective of typical customer charges in other jurisdictions. It should be noted that such a charge only sets in after a customer has used an Exchequer-funded allowance that is 1.7 times the average annual household use. In this context, the proposed cap appears to be set at a reasonable level to promote conservation.

The CRU intends to keep the level of the cap under review to assess if it is appropriate as a water conservation measure. The CRU proposes that, following the implementation of a charging regime, Irish Water should monitor and report to the CRU on the usage of the top 10% of customers as a key performance indicator (KPI). By reporting on this KPI stakeholders can assess whether the excess usage charge has been successful in promoting water conservation.

Finally, regarding Irish Water’s proposal to set the charge for unmetered customers who are using excessively at the cap, the CRU is of the view that Irish Water’s proposal is reasonable. The CRU considers that this proposal meets the principle of ‘equity and fairness’ and does not raise any issues of discrimination between customer types. The CRU accepts the need to strike a balance between conservation of water and imposing a fair charge on customers.
4 CRU’s Consultation Questions

The CRU is seeking your views on Irish Water’s excess usage charge proposal. When responding, please provide your reasons for your views on the Irish Water’s proposals and propose alternatives with reasoning where you disagree with Irish Water’s proposals. Specifically, the CRU is seeking your comments regarding the following:

Parties are invited to comment on matters set out in this section, including the key proposals which relate to:

Water conservation

1. Do you think Irish Water’s policy proposal and the charges therein will successfully promote water conservation?

   If so, why? If not, how would you amend the proposal to better achieve this objective (within the legislative framework)?

Charging process - metered and unmetered customers

2. Is the process for charging metered and unmetered customers presented clearly?

3. Do you agree with the procedure that Irish Water proposes to use to assess the usage of metered and unmetered customers who appear to use water excessively?

   If so, why? If not, how should the procedure be amended (considering both legislation and CRU principles)?

4. Do you agree with the procedure that Irish Water proposes to use to notify and bill those customers who appear to use water excessively?

   If so, why? If not, how should the procedure be amended (considering both legislation and CRU principles)?

Derivation of excess usage charge

5. Do you agree that Irish Water’s proposal to derive the unit charge using Option 1 best meets the principles set out by the CRU?

6. Should a transition (following public consultation) from Option 1 to a more cost-reflective approach be considered once the CRU has made a decision on the appropriate allocation of costs between domestic and non-domestic customers?

   If so, why? If not, how do you think the charge should be calculated (considering both legislation and CRU principles)?
### Cap on excess usage charge

7. Do you agree with Irish Water’s proposal to set the combined cap on charges at €500 for water and wastewater services, i.e. €250 per service?

   If so, why? If not, how do you think the charge should be calculated (considering both legislation and CRU principles)?

8. Do you agree with Irish Water’s proposal that unmetered customers who have been proven to use excessively, and have not had a meter installed, be charged at the cap of €250 per service, or €500 where a customer uses both water and wastewater services?

   If so, why? If not, how do you think the charge should be calculated (considering both legislation and CRU principles)?

9. Do you agree with the CRU’s proposal to review the charges and the cap? If so, for how long do you consider the proposed charges and cap be in place before the CRU carries out a review?

When responding, please provide your reasons for your views on the Irish Water’s proposals and propose alternatives with reasoning where you disagree with Irish Water’s proposals.
5 Next Steps

The following are the key milestones that follow the publication of this consultation:

- Six-week consultation period will end, i.e. deadline for responses, at close of business 23 April 2019.
- The CRU intends to publish the decision in June 2019 alongside the approved Water Charges Plan.
- Irish Water notifies customers using excessively in Q3 2019.
- First excess use bills will be issued to customers in Q4 2020.
Appendix A – Diagram of excess usage charge process