



An Coimisiún
um Rialáil Fóntas
Commission for
Regulation of Utilities

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Commission for Regulation of Utilities

Irish Water's Proposals for a new Non-Domestic Tariff Framework

CRU Response Paper
(to CRU Consultation & Proposed
Decision Papers)

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Executive Summary

This Response Paper summarises the principal comments received as part of the CRU's consultation and proposed decision on Irish Water's new Non-Domestic Tariff Framework and provides the Commission for Regulation of Utilities' ('CRU') response to these comments.

The Framework sets out the 'rules' for how tariffs are designed and how customers will be transitioned to their new tariffs over time. The purpose of the Framework is to generate a harmonised suite of tariffs for non-domestic water and wastewater customers. A harmonised approach will benefit Irish Water's customers in terms of transparency, simplicity and equity.

The CRU consulted on Irish Water's proposals for 10 weeks, from 20 June 2018 to 29 August 2018, and further consulted on the CRU's proposed decision on the Non-Domestic Tariff Framework for 5 weeks, from 15 April 2019 to 20 May 2019. The full details of the CRU's proposed decision were set out in its Proposed Decision Paper (CRU/19/042), which was published alongside the CRU's Response Paper (CRU/19/043) and Irish Water's Information Paper (CRU/19/045).

The CRU received a combined total of 46 responses to the consultation and proposed decision papers from a wide range of stakeholders and interested parties. This Response Paper should be read in conjunction with the CRU's decision on Irish Water's Non-Domestic Tariff Framework (CRU/19/074), which is published alongside this paper.

Public Impact Statement

At present over 500 separate charges exist for the provision of water and wastewater services to non-domestic customers of Irish Water across the country. These charges vary in level, structure, categorisation and application.

The CRU requested that Irish Water develop proposals for a new Non-Domestic Tariff Framework which will apply to non-domestic water and wastewater customers connected to the public network. The Framework sets out how and how much non-domestic customers will be charged for water and wastewater services. It will introduce harmonised charging arrangements for the supply of water to non-domestic premises and for the removal of wastewater from non-domestic premises.

Harmonised Charging Arrangements

Harmonised charging arrangements will bring benefits to non-domestic customers in the following ways:

- **Create a simpler charging structure** compared to what exists today. This will make it easier for customers to understand their charges and how these are applied;
- **Improve transparency** - The Framework will clearly set out what price is charged for water and wastewater services across the country, what tariff category applies to customers, and how the charges are calculated and applied to customers, resulting in improved transparency for all non-domestic customers;
- **Equitable charging** - Tariffs that result in 'similar' customers (in terms of consumption characteristics (e.g., volume of water consumption)) being charged the same amount for using the same service will achieve greater equity across customers;
- **Greater price stability** - Tariffs will be designed to ensure that customers' bill volatility is kept to a minimum. Greater stability in charges over time will benefit customers;
- **Cost Reflectivity** - Tariffs will be designed to reflect only the costs that customer groups impose on the system, and thereby provide efficient signals for water use; and
- **Greater price certainty** - Changes to the non-domestic tariffs approved under the Framework in the future will be subject to public consultation and regulatory approval. Generally, tariff change reviews are taken in line with revenue control periods, or at yearly periods within the control period. This will provide greater certainty to businesses as they plan and budget for the future.

A harmonised suite of non-domestic tariffs for the provision of water and wastewater services is a common model employed both domestically (in gas and electricity) as well as internationally.

Creating a new charging regime is consistent with the principle set out in the Government's *Water Services Policy Statement 2018-2025*¹ that water and wastewater services should be delivered fairly and efficiently with a customer focus. A new regime that provides efficient price

¹http://www.housing.gov.ie/sites/default/files/publications/files/water_services_policy_statement_2018-2025.pdf

signals for water use to customers and promotes conservation also aligns with a key theme and policy objective of conservation and encouraging behavioural change contained within the Water Services Policy Statement. The Policy Statement further recognises the importance of water and wastewater services to national competitiveness.

Transitioning Changes to Customers' Bills

The new non-domestic tariffs will impact the amount paid by customers for water and wastewater services and will result in bill decreases for some customers and bill increases for other customers. The CRU recognises that bill changes may be a concern for non-domestic customers and a core part of the Framework will be arrangements to gradually transition customers from their existing tariff to their new non-domestic tariff over time.

Table of Contents

1	Introduction	8
1.1	Background.....	8
1.1.1	CRU’s role in regulating Irish Water’s revenues and non-domestic tariffs.....	8
1.1.2	Purpose of this Paper	9
1.1.3	Background & CRU’s Legislative Remit.....	10
1.1.4	Related Documents	10
1.1.5	Structure of Paper.....	11
2	Responses Received	13
2.1	Responses to Proposed Decision Paper (CRU/19/042)	13
2.2	Responses to Consultation Paper (CRU/18/114).....	13
3	General Comments Received to the Proposed Decision (CRU/19/042)...	15
3.1	Irish Water’s Proposals for a Harmonised Tariff Regime and Resulting Bill Impact	15
3.2	Legacy Charging Arrangements and Past Capital Contributions	16
3.3	Tariff Principles	17
3.4	Network and Operational Costs	19
3.5	Exceptions to ‘Water in = Water out’ Assumption	20
3.6	Allocation of Wastewater Costs and Wastewater Tariffs.....	20
3.7	Communication with Non-Domestic Customers.....	22
3.8	Consultation on ‘Tariff Application Rules’ (Phase 2)	22
3.9	Non-Domestic Share of Allowed Revenue Costs.....	24
3.10	Trade Effluent Charging Policy	24
3.11	Review of Enduring Non-Domestic Tariff Levels.....	26
3.12	Dispute Resolution.....	26
3.13	Number of Customer Classes	27
3.14	Transitional Arrangements Beyond the 3-year Transition Period.....	28
3.15	Customer Impact Analysis	29
3.16	Incentives for Water Conservation	30
3.17	Publicly Sourced Group Water Schemes	30
3.18	Under-Recovery of Revenue.....	31
3.19	Harmonisation and Revenue Rebalancing.....	31

4	General Comments Received to the Consultation (CRU/18/114)	33
4.1	Irish Water’s Proposals for a Harmonised Tariff Regime	33
4.2	Exceptions to ‘Water in = Water out’ Assumption	34
4.3	Trade Effluent Charging Policy	35
4.4	Customer Classification for the Purposes of Charging	36
4.5	Special Consideration in Setting Tariffs	37
4.6	Individual Legacy Charging Arrangements	38
4.7	Public Group Water Schemes	38
4.8	Inefficient Network and Operational Costs	39
4.9	Past Capital Contributions	40
4.10	Tariff Principles	41
4.11	Volume of and Complexity of Tariff Proposals	43
4.12	Irish Water’s Future Capital Investments	45
4.13	Accuracy of Underlying Data	46
4.14	Clarity on Expected Billing Frequency	46
4.15	Sustainable Regional Development	47
4.16	Under-Recovery of Revenue	47
4.17	Consideration of Economies of Scale	48
4.18	The Timing of the Non-Domestic Tariff Framework	49
4.19	The Separation of Ervia and Irish Water	50
5	Responses Received to Consultation Questions (CRU/18/114)	51
5.1	Design Element One - Geographic Basis for Charging	51
5.2	Design Element Two - Customer Classification	53
5.2.1	Irish Water’s Considerations for Metered Water and Wastewater Non-Domestic Customer Classification Method	53
5.2.2	Irish Water’s Considerations for Metered Water and Wastewater Customer Classes	55
5.3	Design Element Three - Tariff Structures	58
5.3.1	Irish Water’s Considerations for its Basis for Water and Wastewater Charging	58
5.3.2	Irish Water’s Considerations for the Application of Tariffs on a Single or Combined Service Basis	60
5.3.3	Irish Water’s Considerations for the Structure of Charges for its Metered Charges	61

5.3.4	Irish Water’s Considerations for the Design of its Volumetric Charge Component	62
5.3.5	Irish Water’s Considerations for the Structure of its Unmetered Charges	63
5.3.6	Irish Water’s Considerations for its Structure of Charges for metered Mixed-Use Customers	64
5.3.7	Differentiated Tariff Arrangements.....	66
5.4	Design Element Four - Cost Allocation	68
5.4.1	Irish Water’s Considerations for its Cost Allocation Methodology	68
5.4.2	Irish Water’s Considerations for Disaggregating Costs and Determining ‘Cost Drivers’	71
5.4.3	Irish Water’s proposals for using the Allowed Revenue cost structure ‘breakdown’ to allocate opex and capex costs to customer classes ..	75
5.4.4	Allocation of Costs to the Standing and Volumetric Charges.....	76
5.5	Irish Water’s Transitional Arrangements Proposals	78
5.5.1	Transition Approaches & Offering a Cap on Annual Bill Increases	78
5.5.2	Transition Period.....	80
5.5.3	Method of Transitioning Customers – Calculating Transition Tariffs..	82
5.5.4	Grace Period.....	83
5.5.5	Review of enduring non-domestic tariff levels.....	84
5.6	Indicative impacts of Irish Water’s proposals to customers’ bills over the transition period	87
5.7	Communicating tariff changes to customers	89
5.8	Measures to mitigate increases to customers’ bills	91

1 Introduction

1.1 Background

1.1.1 CRU's role in regulating Irish Water's revenues and non-domestic tariffs

The CRU's role as economic regulator of Irish Water is to protect the interests of customers, ensure water services are delivered in a safe, secure and sustainable manner and that Irish Water operates in an economic and efficient manner. As set out in the CRU's Strategic Plan for the 2019-2021 period, a key CRU objective is to provide effective regulation of Irish Water to deliver secure, efficient and sustainable outcomes in the public interest. An important role for the CRU in regulating Irish Water is to ensure that there is a fair and transparent system of charging for non-domestic customers.

Currently there is a wide range of non-domestic tariff levels, tariff categories, methodologies, applications, billing arrangements and billing cycles across the country². This complex and varying range of non-domestic tariff structures evolved under the previous water industry structure, overseen by 34 different Local Authorities and 10 Town Councils. The CRU requested that Irish Water develop proposals for a new Non-Domestic Tariff Framework to be submitted to the CRU and published for public consultation.

The new Non-Domestic Tariff Framework sets out how and how much non-domestic customers of Irish Water will be charged for water and wastewater services. The purpose of the Framework is to introduce harmonised non-domestic tariffs, which will benefit customers in terms of transparency, simplicity and equity.

The Framework sets out how the new non-domestic tariffs are designed in respect of:

1. The geographic basis of charging (national versus regional charging);
2. How customers are classified into different tariff classes;
3. How the tariffs will be structured (e.g., fixed and variable charges); and
4. How the costs of providing water and wastewater services are allocated to each customer class.

The new non-domestic tariffs will result in bill decreases for some customers and bill increases for other customers. The CRU recognises that bill changes can be a concern for non-domestic customers. Therefore, the Framework also includes transitional arrangements which set out:

5. How customers will be gradually transitioned from their existing tariff to their new non-domestic tariff over time.

When moving from an existing tariff to a new non-domestic tariff it is very important that customer bill volatility is kept to a minimum and that customers are transitioned in a fair and reasonable manner. The transitional arrangements and measures that can help mitigate bill increases for customers are a core part of the Framework.

² Please see Irish Water's "*Current Non-Domestic Tariff Arrangements*" (CRU/18/117) submission document.

On 25 May 2018 Irish Water submitted to the CRU its proposals for each of the above tariff design and transitional aspects of the Framework (1-5 above). The CRU consulted on Irish Water's proposals for 10 weeks, from 20 June 2018 to 29 August 2018. The CRU received 32 responses from the public to the consultation from a wide range of stakeholders and interested parties.

After careful consideration of the comments received and stakeholder engagement, on 15 April 2019 the CRU published its 'proposed decision' on the new Non-Domestic Tariff Framework. That paper informed affected customers and interested parties of the CRU's proposed decision and provided stakeholders with another opportunity to provide input prior to the CRU reaching a final decision on the Tariff Framework and non-domestic tariff rates. The CRU consulted on the its proposed decision on the Framework and resulting non-domestic tariff rates for 5 weeks, from 15 April 2019 to 20 May 2019.

The CRU received 14 responses from the public to the CRU's Proposed Decision Paper. After careful consideration of the comments received and further stakeholder engagement, the CRU has come to a final decision on the Tariff Framework and non-domestic tariff rates. The Decision Paper published alongside this Response Paper is drafted to inform affected customers and interested parties of the CRU's final decision on Irish Water's Non-Domestic Tariff Framework and the resulting non-domestic tariff rates.

1.1.2 Purpose of this Paper

The purpose of this Paper is to summarise the principal responses received to the CRU's Consultation and Proposed Decision Papers on a new Non-Domestic Tariff Framework, which sets out:

- geographic basis of charging (national versus regional charging);
- how customers are classified into different tariff classes;
- how the tariff will be structured (e.g., fixed and variable charges);
- how the cost of providing the water and wastewater services are allocated to each customer class; and
- how customers will be gradually transitioned from their existing tariff to their new non-domestic tariff over time.

The CRU has considered all responses received through the consultation process before making its decision on each aspect of the Non-Domestic Tariff Framework (i.e., each aspect of the non-domestic tariff design and transitional arrangements) and the enduring tariff rates.

As part of this engagement process, the CRU established 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. This Group has met eight times since October 2016 and has provided invaluable feedback to the CRU during the formative stages of the project. The CRU will continue to engage with the Non-Domestic Water User Group as the project continues.

1.1.3 Background & CRU's Legislative Remit

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 CRU'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 CRU also has the responsibility of approving the charges applied by Irish Water to non-domestic customers for water and wastewater services. As per the CRU's direction (CER/14/746), 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 Irish Water had the necessary information to examine the structure and level of existing tariffs and develop proposals for a new tariffing regime.

1.1.4 Related Documents

To provide context to this Response Paper, the following list of documents contain previous CRU consultations or decisions made in relation to non-domestic water and wastewater tariffs applied to customers of Irish Water.

- CER Response and Decision Paper - Water Charges Plan Non-Domestic Water and Wastewater Charges, New Connection Charges (CER/14/453).
- Water Charges Plan – CER Decision Paper (CER/14/746).
- Irish Water Charges Plan – September 2014 (CER/14/747).
- Water Charges Plan – CER Decision Paper (CER/15/005).
- Irish Water Charges Plan – March 2015 (CER/15/001).
- Irish Water Charges Plan – September 2016 (CER/16/262).
- Irish Water Charges Plan – April 2017 (CER/17/088).
- Irish Water Charges Plan – August 2017 (CER/17/248).
- Irish Water Charges Plan – February 2018 (CRU/18/030).
- CER Information Note - Establishing Irish Water's Non-Domestic Tariff Framework (CER/16/304).
- CRU Information Note – Establishing Irish Water's Non-Domestic Tariff Framework (CRU/17/287).
- CRU Consultation Paper – Establishing Irish Water's Non-Domestic Tariff Framework (CRU/18/114).

- Current Non-Domestic Tariff Arrangements – Irish Water submission to the CRU (CRU/18/117).
- Non-Domestic Tariff Design Review and Enduring Proposals – Irish Water submission to the CRU (CRU/18/115).
- Non-Domestic Transitional Arrangements Proposals – Irish Water submission to the CRU (CRU/18/116).
- Irish Water Non-Domestic Tariff Proposals – An abridged guide (CRU/18/118).
- CRU Proposed Decision Paper – Irish Water’s Non-Domestic Tariff Framework (CRU/19/042).
- CRU Response Paper - Irish Water’s Non-Domestic Tariff Framework (CRU/19/043).
- Irish Water document – CRU’s proposed decision on Irish Water’s Non-Domestic Tariff Framework – Irish Water Customer Information Paper (CRU/19/045).
- CRU Decision Paper – Irish Water’s Non-Domestic Tariff Framework (CRU/19/074)
- Irish Water document – CRU’s Decision on Irish Water’s Non-Domestic Tariff Framework – Irish Water Customer Information Paper (CRU/19/076)

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

1.1.5 Structure of Paper

This paper is structured in the following manner:

- **Section 1** - provides an introduction and background information in relation to this Response Paper.
- **Section 2** - lists the respondents to the CRU’s Non-Domestic Tariff Framework Consultation and Proposed Decision Papers.
- **Section 3** - summarises the principal responses received to the CRU’s Proposed Decision Paper and provides a CRU response.
- **Section 4** - summarises the principal ‘general’ responses received to the consultation on Irish Water’s Non-Domestic Tariff Framework proposals and provides a CRU response.
- **Section 5** - summarises the principal responses received to each of the 73 specific questions put forward in the CRU Consultation Paper (CRU/18/114) and provides a CRU response.

CRU Proposed Decision (CRU/19/042)		Response Paper Section
General Comments Received		3
CRU Consultation Paper (CRU/18/114)		Response Paper Section
General Comments Received		4
Q1 – Q4	Geographic Basis for Charging	5.1
Q5 – Q13	Customer Classification	5.2
Q14 – Q38	Tariff Structures	5.3
Q39 – Q52	Cost Allocation	5.4
Q53 – Q68	Transitional Arrangements	5.5
Q69 – Q70	Indicative Impact Analysis	5.6
Q71 – Q72	Communicating Tariff Changes to Customers	5.7
Q73	Measures to Mitigate Increases to Customers' Bills	5.8

2 Responses Received

The CRU would like to thank all respondents for their contributions to the consultation and proposed decision papers. The comments received helped to inform and finalise the tariff design and transitional arrangements set out in the CRU's Decision Paper (CRU/19/074). The list of non-confidential respondents³ for both the consultation and the CRU's proposed decision on Irish Water's Non-Domestic Tariff Framework are set out below.

2.1 Responses to Proposed Decision Paper (CRU/19/042)

The CRU received 14 written responses to the CRU's Proposed Decision Paper (CRU/19/042). The non-confidential responses are listed below and are published alongside this paper on the CRU website.

List of Respondents:

1. American Chamber of Commerce Ireland
2. An Fóram Uisce (The Water Forum)
3. Dalata Hotel Group PLC
4. Dublin Chamber of Commerce
5. Irish Business and Employers Confederation (Ibec)
6. Irish Whiskey Association
7. Irish Hotels Federation (IHF)
8. Joint response from the Department of Business, Enterprise, and Innovation (DBEI), Enterprise Ireland (EI) and IDA Ireland
9. National Federation of Group Water Schemes (NFGWS)
10. Small Firms Association

2.2 Responses to Consultation Paper (CRU/18/114)

The CRU received 32 written responses to the CRU's Consultation Paper (CRU/18/114). The non-confidential responses are listed below and are published in conjunction with this paper on the CRU website.

List of Respondents:

1. American Chamber of Commerce Ireland
2. An Fóram Uisce (The Water Forum)
3. Catholic Primary School Management Association (CPSMA)
4. Cork Chamber
5. Dalata Hotel Group PLC
6. Dublin Chamber of Commerce
7. EPA Large Water Users Community of Practice (CoP)

³ Points raised in confidential responses have been considered and are captured within this Response Paper.

8. Intel Ireland Ltd
9. Irish Business and Employers Confederation (Ibec)
10. Irish Council for Social Housing (ICSH)
11. Irish Creamery Milk Suppliers Association (ICMSA)
12. Irish Hotels Federation (IHF)
13. Irish Rural Link
14. Irish Whiskey Association
15. Joint response from the Department of Business, Enterprise, and Innovation (DBEI), Enterprise Ireland (EI) and IDA Ireland
16. Licensed Vintners Association (LVA)
17. National Competitiveness Council (NCC)
18. National Federation of Group Water Schemes (NFGWS)
19. Nursing Homes Ireland (NHI)
20. Refill Ireland
21. Small Firms Association
22. The Irish Farmers' Association (IFA)
23. Vintners' Federation of Ireland (VFI)
24. Individual 1
25. Individual 2

The comments received to the CRU's Proposed Decision Paper are summarised in Section 3 of this paper, while the comments received to the CRU's Consultation Paper are summarised in Sections 4 and 5 of this paper.

3 General Comments Received to the Proposed Decision (CRU/19/042)

A number of respondents acknowledged and welcomed aspects of the CRU's Proposed Decision Paper. Many respondents welcomed the introduction of a fourth customer class and acknowledged the positive changes made to the tariff structures to promote water conservation (by lowering the fixed element (standing charge) across most of the customer classes), thereby placing a greater incentive on customers to conserve water and providing more scope for customers to reduce their bills. Respondents also acknowledged the changes made to Irish Water's proposed cost allocation and the overall reduction in the percentage share of costs allocated to non-domestic customers. Many respondents also welcomed the CRU's proposed decision to ensure tariff rate levels remain stable throughout the transition period, providing more certainty to customers. The general comments received as part of the CRU's Proposed Decision are summarised below.

3.1 Irish Water's Proposals for a Harmonised Tariff Regime and Resulting Bill Impact

With respect to the bill impacts associated with Irish Water's Non-domestic Tariff Framework, one respondent commented on the specific bill increase it would face as a result of the introduction of Irish Water's Non-Domestic Tariff Framework. This respondent sought clarity on this increase with respect to fairness and equity and stated that *"It would appear that we are being hit with an astronomical increase by Irish Water choosing to cover the revenue that domestic water charges would have raised by collecting it from the business sector"*.

CRU Response:

A key consideration when developing the Tariff Framework was to assess the impact that the new arrangements will have on customers' bills. The CRU recognises that price changes (and hence bill changes) are a key concern for customers. A core principle of the Framework is that customer bill volatility is kept to a minimum via transitional arrangements. Under the CRU's decision on the Tariff Framework, where the application of the new non-domestic tariff results in a bill increase of €250 or more, connections will be gradually transitioned from their existing tariffs to their new enduring tariffs over a 3-year period. Further, for connections facing an annual bill increase of €750 or greater, a 10% cap (if required) will automatically apply to their annual bill increase in any one year to protect non-domestic connections from very large bill increases.

With respect to the equity and fairness of the proposals, it is the CRU's view that developing a harmonised suite of non-domestic tariffs that apply on a consistent basis across the country will make it easier for customers to understand their charges and it will also increase transparency. As well as this, and as stated in the CRU's Proposed Decision Paper (CRU/19/042), tariffs that result in 'similar' customers (in terms of consumption characteristics

(e.g., volume of water consumption)) being charged the same amount for using the same service will achieve greater equity across customers.

Respondents concerned that any increase in non-domestic tariffs is to cover the “...*revenue that domestic water charges would have raised...*” should be aware of the cost allocation exercise which is summarised in Section 5 of the CRU’s Decision Paper (CRU/19/074). The cost allocation exercise provides the first opportunity to evaluate, on a national basis, the costs of providing water and wastewater services to each of the domestic and non-domestic customer bases.

Cost allocation is designed to accurately attribute costs to each of the domestic and non-domestic customer bases, and also across each of the non-domestic customer classes. The non-domestic share of 22.98% (of Irish Water’s total allowed revenue) is an output of the cost allocation exercise (set out in the CRU’s Decision (CRU/19/074)) which involves detailed analysis to understand how costs are driven and what customer class drives those costs. Irish Water followed a systematic approach to disaggregating costs and applying cost drivers to apportion those costs across the customer classes. In this way, the non-domestic tariffs reflect only the costs non-domestic customers impose on the system, and thereby minimises cross-subsidisation across the domestic and non-domestic customer bases.

3.2 Legacy Charging Arrangements and Past Capital Contributions

One respondent highlighted its concern regarding its existing legacy arrangement and its past capital contributions while another respondent believed that all charging mechanisms should be transparent and equivalent regardless of any legacy arrangements.

CRU Response:

As stated previously, the CRU acknowledges that a number of non-domestic customers may have previously contributed to the cost of water and/or wastewater infrastructure in their locality.

The CRU also acknowledges that, in recognition of such historical investments or capital contributions, customer specific tariff arrangements may have been formalised within legally binding contracts between a Local Authority and a customer. If a customer believes that they have a legally binding contract recognising past capital contributions, subject to legal review, Irish Water intends to uphold such contracts.

The CRU does not have legal powers to assess or approve legacy legal agreements that may relate to historical investments made between Local Authorities and non-domestic customers. However, to ensure that Irish Water carry out its functions in an open and transparent manner, and to protect the interests of all non-domestic customers, the CRU has asked Irish

Water to set up a process to deal with customers who claim to have an existing agreement or contract for the provision of water and/or wastewater services.

This process should clearly set out how a customer can submit an application to Irish Water and what is required to be included in such an application. It should also set out a reasonable timeframe within which Irish Water will assess an application and provide its determination to a customer. The CRU has asked Irish Water to implement this process as soon as feasible to provide clarity to customers.

3.3 Tariff Principles

A number of respondents commented on the exclusion of ‘competitiveness’ as a tariff principle. One respondent stated that it did not accept “...*the CRU’s interpretation as set out in the tariff framework consultation document that a consideration of competitiveness would require cross-subsidisation between customers.*” The respondent acknowledged the inclusion of the international price comparison but stated that in its view, the proposed decision lacks part of what a consideration of competitiveness would require. Specifically, the respondent stated that in order to reach a determination that water prices are competitive “...*the CRU will need to consider customers’ demand for water services over a period of time, assessing their purchasing decisions, the price point at which they would consume more water, the price point at which they use water most efficiently and the price point at which enterprises reduce production due to water costs.*” The respondent does however acknowledge that this analysis requires data that “...*Irish Water does not currently collect.*” This Respondent further stated that “*The CRU should deliver on its goals to ensure water services are competitively priced by ensure that there is a requirement on Irish Water to better understand the needs of their customers and to more cost-effectively serve them.*”

Another respondent recommended that the review of the tariffs at the end of the three-year transition should include competitiveness as a tariff principle.

CRU Response:

Instead of assessing price points at which customers consume more or less, when setting tariff levels the CRU’s goal is to set tariffs that reflect the costs of providing services to customers, are equitable and do not unduly discriminate between customers, and are clear, transparent and easy to understand for customers.

This is in line with a key objective set out within the CRU’s Strategic Plan for 2019-2021, which was published in March 2019. This Plan sets out our commitment to deliver a number of objectives and outcomes across each of the sectors that we regulate. With respect to the water sector, a key objective is to “*Provide effective regulation of Irish Water to deliver secure, efficient and sustainable outcomes in the public interest.*” One of the outcomes associated with this objective, is that “*Transparent, fair and equitable charges are implemented for connections, excessive usage and non-domestic services.*”

Irish Water will, over time, monitor customer consumption behaviour, and also gather further data on meter size, pipe diameter, consumption patterns etc. This data will help inform Irish Water when putting forward proposals to update the cost allocation exercise in the future.

As stated previously, the CRU appreciates that competitiveness is a substantial concern for stakeholders and has addressed this within the scope of the Non-domestic Tariff Framework project without explicitly including it as a tariff principle.

Working within the CRU's statutory functions, the means by which the CRU has addressed competitiveness concerns within the non-domestic tariff project are as follows:

- **Creating simple, equitable and transparent tariffs.** Requiring Irish Water to develop proposals for a Non-Domestic Tariff Framework that will introduce harmonised non-domestic tariffs. A more transparent, simple and equitable approach to non-domestic water and wastewater charges will support businesses, the Irish economy and inward investment.
- **Introducing arrangements to transition customers to the new non-domestic tariffs over time to mitigate bill impacts.** As part of the Framework the CRU has required that Irish Water develop an approach to transition customers from their existing tariffs to the new enduring tariffs gradually over time. It is very important that bill volatility for non-domestic connections is kept to a minimum and that non-domestic connections are transitioned in a fair and reasonable manner. Transitioning non-domestic connections gradually over time is a core part of the Framework.
- **Publishing an international price comparison analysis.** The CRU requested that Irish Water include an international price comparison analysis within its non-domestic tariff proposal submission to assist stakeholders and non-domestic customers to better understand how Irish Water's proposals compare with what is in place internationally.

Additionally, the CRU also takes account of competitiveness through the revenue controls we place on utilities. Through these processes we drive efficiencies and ensure economic investment in necessary infrastructure while also trying to keep costs as low as possible for customers. Specifically, we benchmark Irish Water's costs against comparator utilities and we challenge Irish Water to be more efficient by setting realistic targets of delivering and improving services to its customers for less costs over time. If Irish Water fail to achieve the efficiency cost target at the end of a revenue control period, Irish Water is not allowed to recover the inefficient spend from customers in the next control period.

In the context of Ireland's Competitiveness Challenge, the National Competitiveness Council ('NCC') in December 2016 stated that: *"Delivering world class water and waste-water infrastructure is a long-term project, but it is a project that must commence today... The funding model must not only deliver an adequate funding stream to facilitate essential investment, it should reward conservation and it should also meet our EU objectives in terms of the user pays principle, and the avoidance of cross subsidisation. Failure to put in place adequate water and waste water infrastructure throughout the country damages the*

competitiveness of all of our regions as places to live and work, and places the viability of a range of companies and sectors at risk”.

Noting the NCC’s priorities for water and wastewater investment, the CRU’s regulation of Irish Water will support competitiveness, including by:

- ensuring ongoing investment in priority infrastructure to support the economy and society;
- driving operational efficiencies in Irish Water;
- incentivising efficient use of water and wastewater services; and
- carefully monitoring costs and service levels (in terms of water quality, continuity of supply and customer service).

These are other means by which the CRU can positively address competitiveness for business customers. The CRU will continue to regulate Irish Water to drive further cost efficiencies and service improvements for customers in the future.

3.4 Network and Operational Costs

Three respondents highlighted the inefficiencies associated with historic investments made prior to Irish Water and how Irish Water’s operational costs are high when compared to UK utilities. One respondent stated that *“A reasonable case exists for differentiation between the cost incurred by Irish Water due to ‘legacy’ conditions and the ‘normal’ long-term costs commensurate with efficiently providing water services”*. All three respondents stated that such costs should not be passed on to non-domestic users.

CRU Response:

As stated previously, matters relating to Irish Water’s operating and capital costs and the determination of efficient and inefficient costs take place as part of the Revenue Control Process and are outside the scope of this project.

Under legislation, the CRU is responsible for setting the total level of revenue that Irish Water can receive, through Government subvention and from non-domestic customers, to cover its efficiently incurred costs. The CRU does this by reviewing Irish Water’s submissions, engaging with the utility, benchmarking its proposed costs against comparator companies, completing a public consultation process, and setting appropriate revenue allowances for operating costs, capital costs and other items. This process is known as a revenue control.

The revenue control sets out efficiency targets and determines the efficiently incurred costs in providing water and wastewater services by Irish Water to all its customers. This total allowed revenue is then used within Irish Water’s cost allocation exercise (see Section 5.5 of the CRU’s Decision Paper (CRU/19/074)) to determine the cost to serve the domestic and non-

domestic customer bases, as well as to each individual non-domestic customer class. Irish Water's revenue control also allows it to recover its regulatory asset base over time. The regulatory asset base mainly comprises of capital expenditure incurred since Irish Water took charge of water and wastewater services in 2014. The CRU has challenged Irish Water to reduce operational costs over Interim Revenue Control 2 ('IRC2') to ensure it is on a pathway to an efficient level of expenditure. The CRU expects Irish Water to realise further efficiencies over Revenue Control 3 ('RC3').

To clarify, this project focuses on the establishment of Irish Water's Non-Domestic Tariff Framework, sets out the 'rules' for how tariffs are designed, determines the portion of total allowable costs that are incurred in providing services to non-domestic customers and determines how non-domestic customers will be transitioned to their new tariffs over time.

3.5 Exceptions to 'Water in = Water out' Assumption

One respondent raised concerns around the delay in establishing a formalised process to grant 'Water in = Water out' exemptions. The respondent stated that "*Customers must understand on what basis they are paying for wastewater services*" and that the process for seeking an exemption should be communicated to all customers to whom the assumption applies "*...at the same time as their new water services price*".

Another respondent noted that "*...there is an opportunity to improve the cost recovery mechanism within the tariff...*" and suggested that this be facilitated by reducing the wastewater volume for non-domestic customers that use water within their manufacturing process.

CRU Response:

The CRU acknowledges the respondents' comments. The CRU has asked Irish Water to establish a standardised process for customers making applications under Section 22(9) of the Water Services (No.2) Act 2013. Although the CRU has no explicit legislative role in approving applications made under Section 22(9), it is good regulatory practice to establish a standardised process that will benefit customers in terms of transparency and equity and such an application process is a common practice with water utilities in other jurisdictions.

The CRU has asked Irish Water to implement this process as soon as feasible to provide clarity to customers. The CRU has asked Irish Water to consider the respondent's suggestion that the process for seeking an exemption should be communicated to all customers when Irish Water informs customers of their new tariffs.

3.6 Allocation of Wastewater Costs and Wastewater Tariffs

Three respondents remarked on the proposed decision on wastewater costs and tariffs. Two respondents commented on the CRU's proposed decision to remove the 'contribution to peak'

adjustment used to allocate wastewater treatment capex. One respondent stated that “...*the CRU should re-examine whether a tiered adjustment to wastewater capex cost allocation for all non-domestic customer bands would be appropriate, recognising their lower contribution to the wastewater system peak as compared to households*”, while another respondent “...*hoped to revisit the issue if more detailed information on wastewater cost drivers should become available*”.

While one respondent objected to the increase in wastewater charges and requested that such an increase be deferred until a comprehensive review on all aspects of wastewater and effluent discharge can take place.

CRU Response:

As stated in the CRU’s Proposed Decision and Decision Papers, the CRU could not find precedent to support Irish Water’s approach of applying a ‘contribution to peak’ adjustment to its wastewater treatment capex. It is likely that wastewater treatment capex costs are driven by wastewater volumes and treating particular pollutants, such as biological oxygen (BOD) loads and suspended solids loads.

These cost drivers were used by Stone & Webster in their assessment of cross subsidies between the different customer groups served by Scottish Water. The CRU requested that Irish Water consider these factors and provide further evidence to support that its proposal to adjust the wastewater volume cost driver for ‘contribution to peak’ to allocate wastewater treatment capex costs is appropriate. Irish Water considered the CRU’s points and agreed that its proposal may be not be appropriate and does not align with precedent elsewhere.

In the absence of data on BOD loads and suspended solids loads at this point of time, the CRU is of the view that wastewater treatment capex should be allocated based on relative share of wastewater volumes, and no adjustment should be made to this cost driver. Irish Water will continue to gather the relevant data to improve its understanding of the cost to treat pollutants, such as BOD and suspended solids, and the impact of these on Irish Water’s wastewater assets. This will feed in the development of a new Trade Effluent charging proposals by Irish Water, which will be subject to a full public consultation which is planned to take place in 2020.

In respect of the respondent’s suggestion that changes to the existing (Local Authority) wastewater charges are deferred until a comprehensive review on all aspects of wastewater and effluent discharge can take place, it should be noted that the vast majority of non-domestic wastewater connections do not discharge trade effluent, and as such the CRU is of the view that there is sufficient data to develop standard ‘non-trade effluent’ wastewater charging arrangements. Further, the CRU is of the view that harmonising water charges separately to wastewater tariffs would result in uncertainty and additional complexity for customers and may also require the introduction of two separate transition periods. To delay the setting of wastewater tariffs to reflect the underlying cost of service could also potentially store up a large wastewater tariff level change requirement in the future, which would go against the tariff principle of bill stability.

3.7 Communication with Non-Domestic Customers

A number of respondents commented on the communication with non-domestic customers. Specifically, respondents highlighted the need to:

- put in place an Irish Water communication plan and a national media campaign;
- better explain to non-domestic customers that it is not just tariffs that are being harmonised but also the level of quality and service;
- provide a detailed calendar that allows customers to “...reach a clear and stable understanding of their holistic water service costs”;
- provide a better understanding of how the Revenue Control and Tariff policies interact;
- use consistent terminology; and
- communicate methods and technologies that can be employed to reduce water consumption;

One respondent suggested that improved communication on the need for improved infrastructure was required to inform non-domestic customers of the reasons for the tariff framework.

CRU Response:

The CRU is of the view that clearly communicating the changes to customers' tariffs and bills is very important. Providing information and resources to customers will help customers understand how they will be affected by the new tariffing regime throughout the transition period. This will also help customers plan and budget for possible charge increases, and also understand how they can make changes to mitigate against bill increases. The CRU agrees that using clear terminology and also providing the reasons for the tariff changes within Irish Water's customer communications will be beneficial for customers. Additionally, providing a calendar of events as to how and when they will be impacted by the Framework and also other processes that may impact their charges (for example, Irish Water's process for dealing with Water-In ≠ Water-Out applications) will also to provide clarity to customers.

The CRU has asked Irish Water to consider how these suggestions can be accommodated by Irish Water within its Customer Information Paper and also through Irish Water's Communication Plan, online Business Tariff Calculator and Key Account Managers to help customers understand how and when they will be impacted by the Framework.

3.8 Consultation on 'Tariff Application Rules' (Phase 2)

One respondent highlighted a number of ‘...tariff application rules, to be included within the Water Charges Plan.’ These include:

- a detailed commitment on metering policy and protocol and customer disputes;
- billing procedure commitments including billing frequency and redesigned bills;
- more detailed data on customers with multiple connections and how this data will be collected; and
- clarity on the CRU's role in regard to historic agreements/contracts between customers and their local authorities and the need to set out a clear procedure for dealing with such agreements.

One respondent was dissatisfied with the exclusion of Irish Water's proposed basis for classifying its customers (based on annual volume) and details on how it will work in practice. This respondent requested that such information must be made available no later than Q4 2019.

CRU Response:

In relation to the Respondents points regarding meter reading, billing and customer disputes, please note that within the Irish Water Non-Domestic Customer Handbook there are specific customer service level obligations placed on Irish Water regarding how Irish Water bills and deals with customer complaints and disputes. Please see Section 7 (Code of Practice on Billing non-domestic customers) and Section 9 (Code of Practice on Complaints Handling) of the Irish Water Non-Domestic Customer Handbook⁴ for further detail.

Irish Water is developing its proposals for the 'Tariff Application Rules' that will be consulted on in Q4 of this year. These proposals will cover policy considerations, such as rules that determine the tariff that will apply in particular circumstances, for example, when a customer is charged a transition tariff (associated with their customer tariff band) and subsequently changes consumption over the transition period such that they are reclassified into a different tariff band.

In addition, there are a number of processes and rules that Irish Water is developing to operationalise and implement the CRU's decision on Non-Domestic Tariff Framework. These operational rules lie outside the 'Tariff Application Rules' consultation paper. Irish Water will need to clearly set out these processes and rules for customers to allow customers understand how they may be impacted.

The CRU will engage with Irish Water to understand the operational processes and rules that Irish Water is developing which lie outside the 'Tariff Application Rules' Consultation Paper. To give clarity to customers, the CRU will then ask Irish Water to publish a 'calendar' of events that will take place over the coming months to identify how and when customers will be impacted by the Framework, including the processes and rules that Irish Water is developing to operationalise the Framework, as well as other processes Irish Water is implementing (such as the Water-In ≠ Water-Out applications process) that may impact customer bills.

⁴ Irish Water's Non-Domestic Customer Handbook: <https://www.cru.ie/wp-content/uploads/2018/03/CRU18041-Irish-Water-Non-Domestic-Customer-Handbook-27-March-2018.pdf>

In respect of the respondent's request for clarity on the CRU's role regarding historic agreements/contracts between customers and their local authorities, the CRU does not have legal powers to assess or approve legacy legal agreements or contracts made between Local Authorities and non-domestic customers. However, to ensure that Irish Water carries out its functions in an open and transparent manner, and to protect the interests of all non-domestic customers, the CRU has asked Irish Water to set up a process to deal with customers who claim to have an existing agreement or contract for the provision of water and/or wastewater services.

3.9 Non-Domestic Share of Allowed Revenue Costs

One respondent reiterated their concerns regarding the percentage of allowed revenue costs allocated to non-domestic customers. Specifically, this respondent commented that the basis for the increase (19.45% to 22.98%) is not clear and that the increase "...seemed very much like cross-subsidisation".

CRU Response:

As stated within the CRU's Proposed Decision and Decision Papers, the development of Irish Water's Non-Domestic Tariff Framework provides the first opportunity to evaluate, on a national basis, the costs of providing water and wastewater services to each of the domestic and non-domestic customer bases. Previously, each Local Authority billed non-domestic customers located within its local authority boundary the non-domestic charges applicable in that authority. There is significant variation in the levels, structures and application of these charges across the country. The current 19.45% share of Irish Water's total allowable costs that is billed to the non-domestic sector is simply the sum of all of the separate billed amounts to non-domestic customers across the country. It is not based on a detailed assessment of the cost to serve the different types of connections on a national basis.

The 22.98% output 'non-domestic share' set out in the CRU's Decision on Irish Water's cost allocation exercise is the result of detailed analysis to understand how costs are driven and who drives those costs. Irish Water followed a systematic approach to disaggregating costs and applying cost drivers to apportion those costs across the customer classes. As such, the cost allocation exercise aims to remove cross-subsidisation across customers and customer sectors.

The details of the cost allocation decision are set out in Section 5.5 of the CRU's Decision Paper (CRU/19/074) and also in Irish Water's Customer Information Paper (CRU/19/076).

3.10 Trade Effluent Charging Policy

A number of respondents commented on the introduction of a new Trade Effluent Charging Policy and the need for clarity with respect to these charging arrangements. One respondent commented on the cost implications of a national Trade Effluent Policy on non-domestic

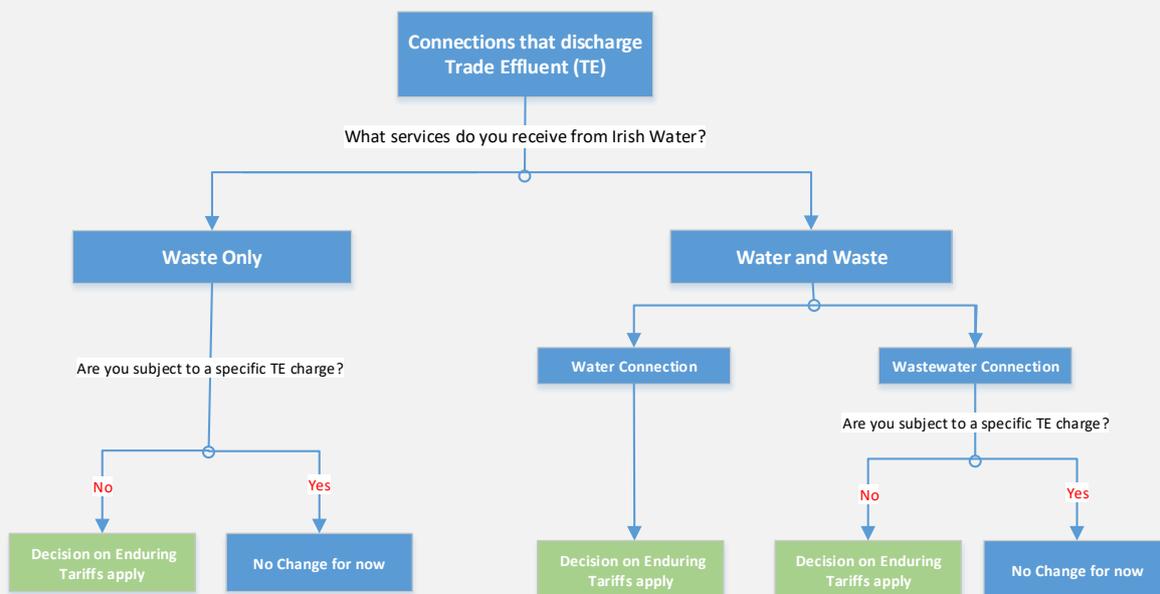
customers while another respondent restated the importance of introducing a Trade Effluent Policy at the earliest possible time.

CRU Response:

The CRU notes respondent’s views regarding the exclusion of new trade effluent charging arrangements from the consultation on Irish Water’s Non-Domestic Tariff Framework. As stated in the CRU’s Decision Paper (CRU/19/074), Irish Water currently has insufficient cost evidence to propose an enduring policy for charging for trade effluent discharges. As such, it is unable to set out its proposals or give respondents a cumulative impact of service provision cost at this time.

An enduring Trade Effluent Charging Policy is planned to be introduced in 2020. Please note that Irish Water’s proposals for an enduring Trade Effluent Charging Policy, including proposed trade effluent charges, will be subject to a full public consultation in advance of implementation. All views from interested parties will be welcome. The CRU has asked Irish Water to publish further detail on its plans and timelines for progressing the development of an enduring TE charging policy.

Again, it is important to clarify that only connections levied with a specific trade effluent charge (i.e. distinct from the standard Local Authority wastewater tariff) are out of scope of this project and as such will not be affected by Irish Water’s Non-Domestic Tariff Framework. Irish Water will maintain these charging arrangements for an interim period until it has sufficient cost evidence to propose an enduring Trade Effluent Charging Policy. The following diagram sets out how connections that discharge trade effluent may or may not be affected by Irish Water’s Non-Domestic Tariff Framework:



3.11 Review of Enduring Non-Domestic Tariff Levels

One respondent commented on Irish Water's submission and the reference to adjusting tariffs in line with inflation. The respondent stated that "...annual price increase (CPI linked) ...does not support business planning" and that there should be "...a hold on new rates ...for four years as this gives time for the business to try and work this charge into its operational model".

CRU Response:

As stated in the CRU's Decision Paper, the CRU is of the view that tariff levels should ideally be set (for a particular period) to recover a utility's allowed revenue for the same period. However, this is not possible in this situation. Given that the enduring tariffs will be implemented on 1 May 2020, for a 3-year period, the CRU is of the view that it is prudent to set the tariff levels to reflect estimates of inflation and growth in connection numbers over future years. This is what would be done if setting tariffs on an annual basis, which is common regulatory practice. It also lessens the risk of the tariff levels becoming out of line with the utility's allowed revenue to provide water and wastewater services to its customers.

Irish Water's proposals (published in June 2018) would result in a slightly different standing charge, volumetric rate and unmetered tariff level being set for each year of the transition period. However, as previously suggested by respondents, it would be easier for customers if their enduring tariff (standing charge, volumetric charge and unmetered charge) levels remained unchanged for the duration of the transition period. The CRU therefore asked Irish Water to generate enduring tariff levels that are stable throughout the 3-year transition period. These rates are published in the CRU's Decision Paper (CRU/19/074). These enduring tariff rate levels reflect expected growth in connection numbers and inflation over the 3-year transition period. To confirm, the CRU's Decision is that the enduring tariff rate levels will not change over the 3-year transition period, to provide certainty to customers over this period.

3.12 Dispute Resolution

One respondent sought clarity on the CRU's dispute resolution powers and whether the CRU has power to consider complaints that a business may have with the implementation of Irish Water's Non-Domestic Tariff Framework.

CRU Response:

The CRU's dispute resolution powers for non-domestic customers connected to the public water and wastewater network are set out in the Water Services Act 2014⁵. Section 8 of this Act states that "...the Commission shall provide a dispute resolution service to any customer of Irish Water having an unresolved complaint relating to Irish Water". The CRU also has additional dispute resolution powers set out in the Water Services Act 2017⁶. These powers relate to the connection to and use of the 'public water system'.

The CRU provides a dispute resolution service for customers with an unresolved complaint with Irish Water, in accordance with our powers set out in legislation. To make a complaint, non-domestic customers must first complete Irish Water's complaint handling process⁷, and in the event that the issue cannot be resolved it may be escalated to the CRU by completing the online 'Complaint Form'⁸. The details of how customers may make a complaint regarding Irish Water is set out in Irish Water's Code of Practice on Complaint Handling⁹.

3.13 Number of Customer Classes

Two respondents commented on the number of customer classes set out in the Proposed Decision Paper (CRU/19/074). One respondent acknowledged and welcomed the introduction of a fourth customer class (Band 4) but suggested further splitting of the Band 2 customer class (consumption between 1,000m³ and 19,999m³). The respondent noted the huge variation of volumes within this band.

One respondent suggested a fifth customer class for very large non-domestic connections. This respondent noted that while the number of large user connections is relatively small, the connections in question will be subjected to very large increases in water costs due to high volumetric usage.

CRU Response:

In determining the number of customer classes for the proposed decision, the CRU assessed the potential for the introduction of a fourth customer class and requested Irish Water to consider and investigate the possibility of introducing an additional customer class. The

⁵ <http://www.irishstatutebook.ie/eli/2014/act/44/enacted/en/print>

⁶ <http://www.irishstatutebook.ie/eli/2017/act/29/enacted/en/html>

⁷ For further information, see: <https://www.cru.ie/home/complaint-form/water/log-complaint-irish-water/>

⁸ <https://www.cru.ie/home/complaint-form/water/online-complaint-form/>

⁹ See Section 9 of the Non-Domestic Customer Handbook: Irish Water's Non-Domestic Customer Handbook: <https://www.cru.ie/wp-content/uploads/2018/03/CRU18041-Irish-Water-Non-Domestic-Customer-Handbook-27-March-2018.pdf>

CRU's proposed decision to introduce a fourth customer class for connections that consume/discharge a volume equal to or greater than 250,000m³ per annum was on the basis that there is a cost differential to support a fourth class at this threshold (i.e. 250,000m³). In order to establish an additional customer class between 1,000m³ and 19,999m³ and for 'very large water users', the CRU would require cost differential data supporting such decisions. At this point in time, Irish Water does not have data to support the introduction of additional customer classes between 1,000m³ and 19,999m³ and for 'very large water users'.

3.14 Transitional Arrangements Beyond the 3-year Transition Period

A number of respondents requested clarity on what will happen to customers who have not reached their enduring tariff upon completion of the three-year transition period. Respondents are concerned that these non-domestic customers will face a "cliff edge" once the transition period is complete. Another respondent welcomed the proposal to limit the increases to 10% per year (for customers who qualify for a transition and see an increase of €750 or greater) but did not feel that the ongoing increase of 10% per year was reasonable.

CRU Response:

The CRU notes respondents' concern regarding the period after the three-year transition. At this point in time it is not possible to make a decision on any capping or transitional arrangements beyond the 3-year transition period. This is because we do not know Irish Water's cost requirement in 4 years' time and beyond, nor do we know the value of other important input parameters to the tariff levels, such as each class's customer connection numbers and volumes. It would be necessary to understand these values in order to calculate what new tariff levels would be in 4 years time, and thus assess the need for and appropriate magnitude of any capping arrangements at that time.

However, it is important to state that any change to non-domestic tariff arrangements (that will apply after the 3-year transition period) will be subject to a full public consultation. For those connections that receive a 10% cap to their annual bill each year, and therefore will have not reached their enduring tariff rates by the end of the 3-year transition period, the CRU will consult on the need for further transitional arrangements for these connections after the 3-year transitional period is completed, with a view to minimising the risk of a large step change in tariff levels for these connections.

3.15 Customer Impact Analysis

One respondent sought a breakdown of customer bill impacts by local authority as well as a breakdown of mixed-use connections by local authority. Specifically, this respondent sought the following bill impact by local authority:

- Connections that will see decreases to their bills, connections that will see bill increases less than €250, and also connections that will see bill increases of between €250 and €750, and thus be eligible for a transition tariff;
- Connections that will see bill increases of €750 or greater and thus eligible for a transition tariff and 10% cap on their annual bill increases;
- The distribution of connections that fall into the mixed-use non-domestic category;
- A breakdown of investment in water infrastructure together with expected regional benefit of such investment.

Additionally, one respondent requested that Irish Water's Price Comparison analysis should include Ireland's competitor countries for manufacturing investment which include Singapore, Switzerland, Germany and a number of States within the USA. Another respondent highlighted their disappointment that no sectoral impact assessment was included.

CRU Response:

In response to the respondent's request for additional bill impact analysis, the CRU has extracted data from Irish Water's models and presented bill impact analysis (both bill percentage change and monetary basis) on a county basis in Appendix 2 of the CRU's Decision Paper (CRU/19/074). In respect of the number of mixed-use customers by location, Irish Water would be best placed to provide the most up-to-date data on such connections to its network across the country.

In terms of the request for a breakdown of investment in water infrastructure together with expected regional benefit of such investment, please note that the CRU will shortly be publishing a consultation on Irish Water's investment spend submission for the 2020 to 2024 period as part of the revenue control 3 process. That revenue control consultation paper will contain a lot of detail on Irish Water's proposed investment spend and the CRU encourages all interested parties to feed into this consultation process with any views they have on Irish Water's investment.

With respect to Irish Water's price comparison analysis and the request to include additional comparator countries, the CRU engaged with Irish Water to seek the inclusion of such countries. Irish Water informed the CRU that it had previously examined the charging structures of other competitor countries and could not include them given the differences in regulatory charging arrangements (for example the application of indirect taxes) and the need to base its price comparison analysis on a like-for-like basis with comparator countries.

3.16 Incentives for Water Conservation

One respondent stated that enhanced efforts should be made to secure a reduction in overall water consumption and suggested that this reduction in water consumption should be supported by incentives to the business community.

CRU Response:

The CRU agrees with the need to incentivise efficient water use, and within the CRU's Decision on the Framework the CRU has made a number of changes to the tariff structures to further strengthen the incentive to conserve water and efficiently discharge wastewater. See Section 5.5 of the CRU's Decision Paper for more details (CRU/19/074).

Additionally, Irish Water has developed a water stewardship and conservation pilot training programme in 2019. This programme aims to support Irish businesses as they seek to improve their water stewardship practices and impacts. Irish Water has also provided information on water conservation specifically for businesses. Further details can be found on Irish Water's [website](#).

3.17 Publicly Sourced Group Water Schemes

One respondent highlighted that since the process to establish Irish Water's non-domestic tariff framework commenced, there have been significant policy changes in relation to domestic water charges and the funding arrangements for group water schemes. Given this, the respondent stated that the publicly sourced group water sector needs clarity on its future charging arrangements as soon as possible.

CRU Response:

As stated within the CRU's Decision Paper, due to limited descriptive information that is available it is not possible for Irish Water to separately identify all public Group Water Scheme connections at this time and therefore assess how this type of connection may be impacted by the application of new tariffs. Full data will need to be gathered by Irish Water in respect of identifying all public Group Water Scheme connections, the existing tariffing arrangements, and also possible interaction with governmental funding arrangements to accurately assess the impact and appropriateness of the future tariffing arrangements for this type of connection.

The CRU has asked Irish Water to develop a separate approach to developing and consulting on the appropriate tariffing arrangements for this type of connection. The CRU has also

asked Irish Water to set out its approach and the likely timeframe for its implementation as soon as feasible to provide clarity to these connections.

For clarity, the existing charging arrangements for public Group Water Schemes will remain in place until new enduring tariffing arrangements for this type of connection are developed, consulted on and implemented.

3.18 Under-Recovery of Revenue

One respondent highlighted the revenue shortfall for Irish Water resulting from applying the transitional arrangements. This respondent stated that such arrangements “...*must be met entirely from Exchequer funds, with no mechanism for retrospective clawback*”. This respondent also stated that the “...*same consideration should apply to any subsequent adjustment pathway that may be offered in 2023*”.

CRU Response:

The CRU’s decision on the Framework will mean that the non-domestic share of total allowed revenue will change from approximately 20% currently billed to non-domestic customers to 22.98% over a 3-year period. This 22.98% will reflect the fully allocated cost of serving non-domestic customers.

As such, any shortfall in revenue in a particular year during the transition as a result of applying the transitional arrangements will ultimately be picked up through government subvention. See Section 5.5 of the CRU’s Decision Paper for more details (CRU/19/042).

With respect to any subsequent pathway beyond the 3-year transition period, the CRU will consider the need for further transitional arrangements (for those customers who have yet to reach their enduring tariffs at the end of the transition period) and the treatment of any associated costs, after the 3-year transition period has completed.

3.19 Harmonisation and Revenue Rebalancing

One respondent argued that the implementation of tariff ‘harmonisation’ and ‘revenue rebalancing’ should be done at different times stating that “*These two elements should be decoupled with the increase in the overall load on Non-Domestic customers deferred until the harmonisation process is complete*”.

CRU Response:

The CRU considered the option to implement the tariff ‘harmonisation’ and ‘revenue rebalancing’ at different times and would note that to implement the harmonisation of ‘tariff structure and geographic tariff spread’ alone would naturally result in bill increases and bill decreases for customers across the country. Thus, to implement tariff ‘harmonisation’ and ‘revenue rebalancing’ separately could require the introduction of two separate transition approaches for a set period of time (perhaps 3 years each) to help customers transition to their new enduring ‘harmonised’ tariffs.

The CRU is of the view that implementing ‘revenue rebalancing’ separately to the ‘harmonisation of tariff structures and geographic tariff spread’ would be too complex. Two transition periods would result in a lot of change and uncertainty for customers over a 6-year period. It also has the potential to cause some customer’s bills to initially increase and subsequently decrease (and vice versa) due to differing effects of ‘revenue rebalancing’ and ‘tariff harmonisation’ on tariff levels. This bill volatility would not be beneficial for customers. Further, to delay setting the tariff levels to reflect underlying cost of service, could potentially store up a large tariff level change requirement in the future, which would go against the tariff principle of bill stability (i.e., tariffs should be designed to ensure customer bill volatility is kept to a minimum). The CRU is of the view that implementing tariff harmonisation and revenue rebalancing at the same time is simpler for customers, provides greater certainty and a more stable path (in terms of bill changes) for customers as they move toward their enduring tariffs.

4 General Comments Received to the Consultation (CRU/18/114)

As well as responding to the specific questions set out by the CRU in its Consultation Paper, respondents also made general comments relating to Irish Water's proposals. These general comments are summarised in the sub-sections below and are accompanied by a CRU response.

4.1 Irish Water's Proposals for a Harmonised Tariff Regime

Eight respondents highlighted the significance of a harmonised tariff regime for non-domestic water and/or wastewater customers. These eight respondents expressed their support for equity, fairness and efficiency of a harmonised approach as well as acknowledging that the proposals for a new non-domestic Tariff Framework should provide coherent and consistent charges across the country. In its response, one respondent stated that the proposal to move to a harmonised tariff regime for non-domestic water customers should facilitate a more equitable and transparent approach for new and existing businesses. Another respondent stated that a new Non-Domestic Tariff Framework represented a "...*necessary strategic approach for consolidated tariffs across the country...*".

Contrastingly, a number of respondents argued against any increase in charges given the adverse impact it would have on their business, with one respondent suggesting that the revenue rebalancing (that is, changing the current portion (circa 20%) of total allowable revenue that is billed to the non-domestic sector) should not be introduced at the same time as the national harmonisation of tariffs.

CRU Response:

The CRU agrees that developing a harmonised set of charging arrangements will create a simpler charging structure compared to what currently exists. At present 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. This has resulted in over 500 prices and a wide range of tariff arrangements for the provision of water and wastewater services across the country.

Developing a harmonised suite of non-domestic tariffs that apply on a consistent basis across the country will make it easier for customers to understand their charges and it will also increase transparency. As noted by respondents, Irish Water's proposals for a new non-domestic Tariff Framework should provide coherent and consistent charges across the country.

With respect to non-domestic customers concerned about the impact Irish Water's proposals will have on their particular circumstance, a key consideration of developing the Tariff Framework is to assess the impact that the new arrangements will have on customers' bills. The CRU recognises that price changes (and hence bill changes) are a key concern for customers. A core principle of the Framework is that customer bill volatility is kept to a minimum via transitional arrangements. Under the CRU's proposed decision on the Tariff Framework, where the application of the new non-domestic tariff results in a bill increase of €250 or more, customers will be gradually transitioned from their existing tariffs to their new enduring tariffs over a 3-year period. Further, for connections facing an annual bill increase of €750 or greater, a 10% cap (if required) will automatically apply to their annual bill increase in any one year to protect customers from very large bill increases. Further detail on the CRU's proposed decision on the transitional arrangements are set out within Section 8 of the CRU's Proposed Decision Paper (CRU/19/042).

In respect of respondents arguing that the implementation of tariff 'harmonisation' and 'revenue rebalancing' should be done at different times, the CRU has considered this option and would note that to implement the harmonisation of 'tariff structure and geographic tariff spread' alone would naturally result in bill increases and bill decreases for customers across the country. Thus, to implement tariff 'harmonisation' and 'revenue rebalancing' separately could require the introduction of two transition approaches for a set period of time (perhaps 3 years each) to help customer transition to their new enduring 'harmonised' tariffs.

The CRU is of the view that implementing 'revenue rebalancing' separately to the 'harmonisation of tariff structures and geographic tariff spread' would be too complex. Two transition periods would result in a lot of change and uncertainty for customers over a 6-year period. It also has the potential to cause some customer's bills to initially increase and subsequently decrease (and vice versa) due to differing effects of 'revenue rebalancing' and 'tariff harmonisation' on tariff levels. This bill volatility would not be beneficial for customers. Further, to delay setting the tariff levels to reflect underlying cost of service, could potentially store up a large tariff level change requirement, which would go against the tariff principle of bill stability (i.e., tariffs should be designed to ensure customer bill volatility is kept to a minimum). The CRU is of the view that implementing tariff harmonisation and revenue rebalancing at the same time would be simpler for customers, provide greater certainty and a more stable path (in terms of bill changes) for customers as they move toward their enduring tariffs.

4.2 Exceptions to 'Water in = Water out' Assumption

Three respondents commented on Irish Water's proposals to consult on a standardised application process for 'water in ≠ water out' agreements in Phase 2 of the Non-Domestic Tariff Framework Project.

Respondents commented on how the exclusion of such a standardised process from within the consultation made it difficult to accurately determine the full impact of the new Tariff Framework on their operations. Another respondent was unclear as to how such a process and corresponding uptake will affect Irish Water's cost allocation exercise.

CRU Response:

The CRU acknowledges respondents' comments. The CRU has been engaging with Irish Water to establish a standardised process for customers making applications under Section 22(9) of the Water Services (No.2) Act 2013. Although the CRU has no legislative role in approving applications made under Section 22(9), it is good regulatory practice to establish a standardised process that will benefit customers in terms of transparency and equity and such an application process is a common practice with water utilities in other jurisdictions.

Section 8.1.6 of Irish Water's *Non-Domestic Tariff Design Review and Enduring Proposals* submission document states that it "...will develop a standardised 'Water In / Water Out' application process for non-domestic customers as part of the enduring Non-Domestic Tariff Framework". The CRU has requested that Irish Water provide further details on this process in the next phase of consultation on the Water Charges Plan (in Q4 2019) to provide clarity for customers.

Additionally, once the Non-Domestic Tariff Framework is established and implemented, Irish Water will need to consider how and when new 'water in ≠ water out' agreements will be taken account of within its cost allocation exercise. The CRU does not envisage that the cost allocation exercise will be amended prior to the completion of the 3-year transition period.

4.3 Trade Effluent Charging Policy

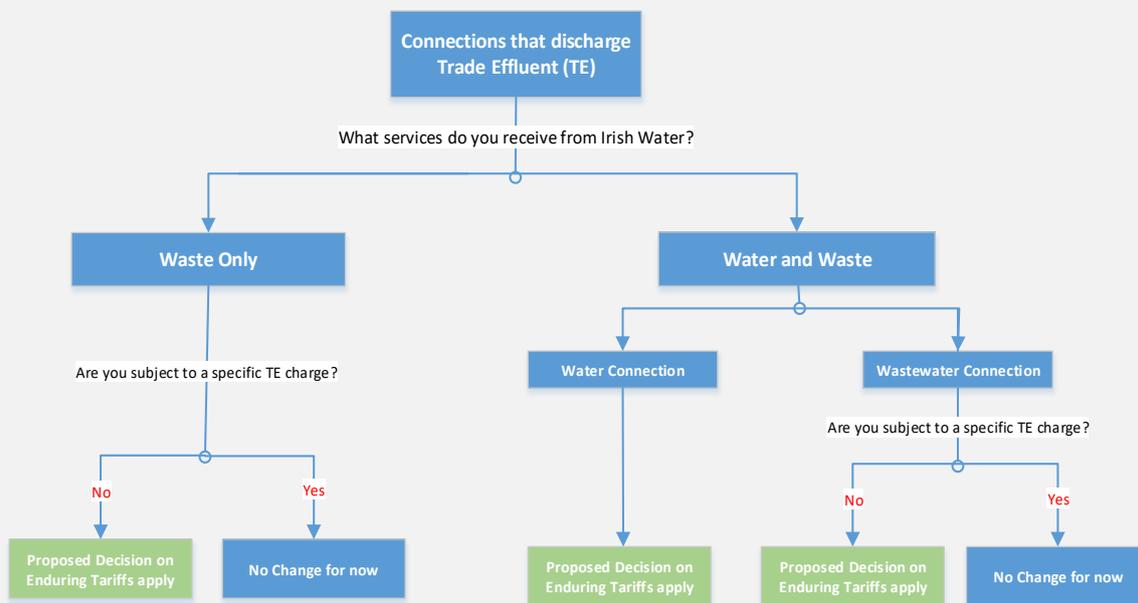
Four respondents commented on the establishment of a new Irish Water Trade Effluent Charging Policy and associated charges. Specifically, respondents sought clarity on Irish Water's trade effluent charging proposals. Respondents were also eager to have the opportunity to comment on any future proposal made by Irish Water. One respondent highlighted their concern over the exclusion of such proposals within the Tariff Framework primarily because of how it will be difficult for stakeholders to assess the cumulative impact of a new Trade Effluent Charging Policy and the Non-Domestic Tariff Framework.

CRU Response:

The CRU notes respondent's views regarding the exclusion of new trade effluent charging arrangements from the consultation on Irish Water's Non-Domestic Tariff Framework. However, as Irish Water currently has insufficient cost evidence to propose an enduring policy for charging trade effluent discharges, it is unable to set out its proposals or give respondents a cumulative impact of service provision cost at this time.

It is important to clarify that only connections levied with a specific trade effluent charge (i.e. distinct from the standard Local Authority wastewater tariff) are out of scope of this project and as such will not be affected by Irish Water's Non-Domestic Tariff Framework. Irish Water

will maintain these charging arrangements for an interim period until it has sufficient cost evidence to propose an enduring Trade Effluent Charging Policy. The following diagram sets out how connections that discharge trade effluent may or may not be affected by Irish Water’s Non-Domestic Tariff Framework:



An enduring Trade Effluent Charging Policy is planned to be introduced in 2020. Please note that Irish Water’s proposals for an enduring Trade Effluent Charging Policy, including proposed trade effluent charges, will be subject to a full public consultation in advance of implementation. All views from interested parties will be welcome.

4.4 Customer Classification for the Purposes of Charging

A number of respondents sought clarity as to whether their property should be classified as non-domestic, domestic or a mixed-use connection for the purposes of charging, including clarity on the application of the Domestic Allowance (‘DA’). For example, connections associated with short term private rental market (specifically Airbnb properties), nursing homes and seasonal businesses (specifically B&Bs).

CRU Response:

The CRU notes the respondents’ comments seeking clarity on the classification of connections for the purposes of charging. Prior to the implementation of its Non-Domestic Tariff Framework, Irish Water will need to ensure its application of non-domestic charges is in line with legislation and applied on a consistent basis. As set out in Section 7 of Irish Water’s *Customer Information Paper* (CRU/19/045), Irish Water states that it “...intends to clearly

outline the customer types liable for non-domestic tariffs in the enduring tariff Framework” within its tariff application rule proposals (in Q4 2019).

4.5 Special Consideration in Setting Tariffs

Six respondents remarked on how, in certain circumstances, special consideration in setting tariffs should be given to particular connection types. One respondent suggested the introduction of lower tariff rates for businesses that supply free potable water to the general public. A number of respondents suggested that Irish Water take account of the impact of the new non-domestic tariffs on charity and voluntary organisations, adding that these require special consideration. Another respondent stated that *“Irish Water should implement an exemption for schools from water charges or at the very least, a reduced charge.”*

Two respondents proposed the introduction of an income threshold for small businesses and farms, adding that where incomes or turnovers are below a certain amount, that these connections should be exempt from the standard rate that will be introduced. Another respondent remarked on non-domestic customers’ ability to pay and the seasonal income constraints of certain non-domestic customers should be recognised in setting tariffs, and also suggested that phased payments should be considered.

CRU Response:

The CRU notes the concerns raised by respondents. However, it is important to note that Irish Water’s cost allocation exercise and proposals are a key part of its tariff design process and proposals. The cost allocation exercise refers to the way a utility attributes its overall costs between different customer classes and different service offerings. This means that tariffs applied to customer classes are designed so that users contribute to the costs they impose on the system, irrespective of the type of business. To introduce unique tariffs, separate criteria or discounted for specific customer types would undermine Irish Water’s cost allocation proposals set out in Section 5.5 of the CRU’s Proposed Decision Paper (CRU/19/042). Such an approach would also conflict with a number of the six tariff principles issued to Irish Water, specifically equity and no undue discrimination and cost reflectivity.

Applying a tariff that diverges from the cost of serving one group of customers means that other groups of customers must pick up the short-fall. This would introduce cross-subsidisation, where one group of customers subsidises (through higher tariffs) another group of customers.

With respect to respondents seeking protection measures for specific connection types, the CRU’s Proposed Decision Paper (CRU/19/042) sets out an approach to transition customers from their existing tariff to the new enduring tariff gradually overtime. As an extra measure of protection, the CRU’s proposed decision is to offer non-domestic customers who qualify for transition and will see an increase of €750 or greater, an automatic 10% cap on the maximum

annual bill increase a customer would face during each year of the transition period. See Section 8.2.2 in the CRU Proposed Decision Paper for further information.

The CRU notes a respondents' view to allow phased payments. Irish Water is required to assist customers in making a payment plan, to assist customers who are experiencing financial difficulties in paying their bills. This is set out in Section 7.8 of the CRU's Non-Domestic Customer Handbook¹⁰. Irish Water must take account of an individual customer's ability to pay when agreeing any repayment arrangement, by credit or other method and confirm with account holders that arrangements are manageable.

4.6 Individual Legacy Charging Arrangements

One respondent requested that the individual charging arrangements or contracts made historically between Local Authorities and non-domestic customers should be named and their charging arrangements disclosed.

CRU Response:

As described in Section 3.1.2 of the CRU's Consultation Paper (CRU/18/114) on Irish Water's Non-Domestic Tariff Framework proposals, the CRU does not have legal powers to assess or approve legacy legal agreements or contracts made between Local Authorities and non-domestic customers. However, to ensure that Irish Water carry out its functions in an open and transparent manner, and to protect the interests of all non-domestic customers, the CRU will require Irish Water to set up a process to deal with customers who claim to have an existing agreement or contract for the provision of water and wastewater services.

This process will allow Irish Water to make a determination as to whether it is legally bound to honour an individual agreement or contract and communicate this to customers. Any disputes that may arise between the customer and Irish Water will be a matter for both parties to resolve. As mentioned above, the CRU does not have legal powers to assess legacy legal agreements or contracts made between Local Authorities and non-domestic customers.

4.7 Public Group Water Schemes

One respondent commented on the classification by Irish Water of publicly sourced Group Water Schemes as non-domestic customers. The respondent remarked that such connections mostly contain domestic or mixed-use connections with very few if any non-domestic customers

¹⁰ Irish Water's Non-Domestic Customer Handbook: <https://www.cru.ie/wp-content/uploads/2018/03/CRU18041-Irish-Water-Non-Domestic-Customer-Handbook-27-March-2018.pdf>

and argued that classifying these connections as non-domestic is largely incorrect and that they should be reclassified.

CRU Response:

Due to limited descriptive information that is available it is not possible for Irish Water to separately identify all public Group Water Scheme connections at this time and therefore assess how this type of connection may be impacted by the application of new tariffs. Full data will need to be gathered by Irish Water in respect of identifying all public Group Water Scheme connections, the existing tariffing arrangements, and also possible interaction with governmental funding arrangements to accurately assess the impact and appropriateness of the future tariffing arrangements for this type of connection.

For these reasons, the CRU has requested that Irish Water develop a separate approach to developing and consulting on the appropriate tariffing arrangements for this type of connection. Irish Water will provide further details on the timeframe and proposed approach in the next phase of consultation (Phase 2) on the Tariff Application Rules (in Q4 2019).

For clarity, the existing charging arrangements for public Group Water Schemes will remain in place until new enduring tariffing arrangements for this type of connection are developed and implemented.

4.8 Inefficient Network and Operational Costs

Eight respondents commented on the potential inefficiencies associated with historic investment practices or decisions made prior to Irish Water and how Irish Water's operational costs are high when compared to UK utilities. Respondents remarked that inefficient costs incurred by Irish Water should not be passed through to non-domestic customers, with two respondents advocating for a portion of non-domestic costs to be collected through the exchequer.

CRU Response:

Matters relating to Irish Water's operating and capital costs and the determination of efficient and inefficient costs takes place during the Revenue Control Process and are outside the scope of this project.

Under legislation, the CRU is responsible for setting the total level of revenue that Irish Water can receive, through Government subvention and from non-domestic customers, to cover its efficiently incurred costs. The CRU does this by reviewing Irish Water's submissions, engaging with the utility, benchmarking its proposed costs against comparator companies, completing a public consultation process, and setting appropriate revenue allowances for operating costs, capital costs and other items. This process is known as a revenue control.

The revenue control sets out efficiency targets and determines the efficiently incurred costs in providing water and wastewater services by Irish Water to all its customers. This total allowed revenue is then used within Irish Water's cost allocation exercise (see Section 5.5 of the CRU's Proposed Decision Paper (CRU/19/042)) to determine the cost to serve the domestic and non-domestic customer bases, as well as to each individual non-domestic customer class. Irish Water's revenue control also allows it to recover its regulatory asset base over time. The regulatory asset base mainly comprises of capital expenditure incurred since Irish Water took charge of water and wastewater services in 2014. The CRU has challenged Irish Water to reduce operational costs over Interim Revenue Control 2 ('IRC2') to ensure it is on a pathway to an efficient level of expenditure. The CRU expects Irish Water to realise further efficiencies over Revenue Control 3 ('RC3').

To clarify, this project focuses on the establishment of Irish Water's Non-Domestic Tariff Framework, sets out the 'rules' for how tariffs are designed, determines the portion of total allowable costs are incurred in providing services to non-domestic customers and how non-domestic customers will be transitioned to their new tariffs over time.

4.9 Past Capital Contributions

Five respondents commented on how, in the past, non-domestic customers may have contributed to the cost of water and/or wastewater infrastructure in their locality. In summary, respondents sought recognition for historical capital contributions within Irish Water's Non-Domestic Tariff Framework with one respondent suggesting a discounted tariff and another respondent suggesting a process should be established to agree customer specific adjustments within the cost allocations for customers that have made capital contributions towards infrastructure in their locality.

CRU Response:

The CRU acknowledges that a number of non-domestic customers may have previously contributed to the cost of water and/or wastewater infrastructure in their locality.

The CRU also acknowledges that, in recognition of such historical investments or capital contributions, customer specific tariff arrangements may have been formalised within legally binding contracts between a Local Authority and a customer. If a customer believes that they have a legally binding contract recognising past capital contributions, subject to legal review, Irish Water intends to uphold such contracts.

The CRU does not have legal powers to assess or approve legacy legal agreements that may relate to historical investments made between Local Authorities and non-domestic customers. However, to ensure that Irish Water carry out its functions in an open and transparent manner, and to protect the interests of all non-domestic customers, the CRU will require Irish

Water to set up a process to deal with customers who claim to have an existing agreement or contract for the provision of water and wastewater services.

This process should clearly set out how a customer can submit an application to Irish Water and what is required. It should also set out a reasonable timeframe within which Irish Water will assess an application and provide its determination to a customer. Irish Water has stated in its *Non-Domestic Tariff Design Review and Enduring Proposals* submission document (CRU/18/115) that it will provide further details on this process in the next phase of consultation (Phase 2) on the Tariff Application Rules (in Q4 2019).

4.10 Tariff Principles

Eight respondents commented on the six tariff principles that Irish Water is required to consider when developing its tariff design proposals. Four respondents remarked on the fact that competitiveness is not included as a tariff principle. A number of respondents considered that the inclusion of such a principle would place a greater impetus on Irish Water to identify and explain the impact of its proposals across usage patterns, usage volumes and sectors. Another respondent sought the CRU to consider the price competitiveness of Irish Water's proposed tariffs and to ensure that Irish Water is providing an efficient, high-quality service at a price that makes economic and commercial sense for businesses.

Respondents also suggested the inclusion of additional tariff principles. Respondents recommended principles are included that encourages conservation, environmentally sustainable behaviour and corporate water stewardship. Another respondent advocated for the inclusion of "...*marginal price cost (user-pays principle) such that user payments are closely related to the quantity of the resource used such that the water resource is used in the most efficient manner*" and also advocated for "*payment rates cost recovery...*". Lastly, one respondent proposed a further principle of encouraging conservation and environmentally sustainable behaviour.

CRU Response:

With respect to respondents seeking the inclusion of 'competitiveness' as a tariff principle, the CRU is aware that competitiveness is a key concern for stakeholders and non-domestic customers of Irish Water.

Prior to the publication of the consultation papers on Irish Water's proposals for a new Non-Domestic Tariff Framework in June 2018, this concern had been raised a number of times throughout the CRU stakeholder and customer engagement activities. A number of stakeholders proposed that 'competitiveness' should be included as a tariff principle as part of the development of the Non-domestic Tariff Framework. The CRU considered this proposal in the context of the CRU's statutory functions, the Water Framework Directive, as well as regulatory precedent in gas and electricity. These considerations are discussed in detail in Section 4.2 of the CRU's Consultation Paper (CRU/18/114) on Irish Water's Non-Domestic

Tariff Framework proposals and a considered view was taken not to include competitiveness as a tariff principle. However, the CRU appreciates that competitiveness is a substantial concern for stakeholders and we will be addressing this within the scope of the Non-domestic Tariff Framework project without explicitly including it as a tariff principle.

Working within the CRU's statutory functions, the means by which the CRU can address competitiveness concerns within the non-domestic tariff project are as follows:

- **Creating simple, equitable and transparent tariffs.** Requiring Irish Water to develop proposals for a Non-Domestic Tariff Framework that will introduce harmonised non-domestic tariffs. A more transparent, simple and equitable approach to non-domestic water and wastewater charges will support businesses, the Irish economy and inward investment.
- **Introducing arrangements to transition customers to the new non-domestic tariffs over time to mitigate bill impacts.** As part of the Framework the CRU has required that Irish Water develop an approach to transition customers from their existing tariffs to the new enduring tariffs gradually over time. It is very important that bill volatility for businesses is kept to a minimum and that businesses are transitioned in a fair and reasonable manner. Transitioning non-domestic customers gradually over time is a core part of the Framework.
- **Publishing an international price comparison analysis.** The CRU requested that Irish Water to include an international price comparison analysis within its non-domestic tariff proposal submission to assist stakeholders and non-domestic customers to better understand how Irish Water's proposals compare with what is in place internationally.

Additionally, the CRU also takes account of competitiveness through the revenue controls we place on utilities. Through these processes we drive efficiencies, ensure economic investment in necessary infrastructure while also trying to keep costs as low as possible for customers. In the context of Ireland's Competitiveness Challenge, the National Competitiveness Council ('NCC') in December 2016 stated that: *"Delivering world class water and waste-water infrastructure is a long-term project, but it is a project that must commence today... The funding model must not only deliver an adequate funding stream to facilitate essential investment, it should reward conservation and it should also meet our EU objectives in terms of the user pays principle, and the avoidance of cross subsidisation. Failure to put in place adequate water and waste water infrastructure throughout the country damages the competitiveness of all of our regions as places to live and work, and places the viability of a range of companies and sectors at risk"*.

Noting the NCC's priorities for water and wastewater investment, the CRU's regulation of Irish Water will support competitiveness, including by:

- ensuring ongoing investment in priority infrastructure to support the economy and society;
- driving operational efficiencies in Irish Water;

- incentivising efficient use of water services; and
- carefully monitoring costs and service levels (in terms of water quality, continuity of supply and customer service).

These are other means by which the CRU can positively address competitiveness for business customers. The CRU will continue to regulate Irish Water to drive further cost efficiencies and service improvements for customers in the future.

Respondents also commented on the possible inclusion of additional principles such as water stewardship, conservation, marginal price cost (user-pays principle) and payment rates cost recovery. As set out previously, the principles issued to Irish Water in January 2016 (set out in Section 4 of the CRU's Consultation Paper (CRU/18/114)), guide Irish Water's tariff design and transitional arrangements. The CRU is of the opinion that the principles suggested by respondents are inherently captured within the CRU's six principles issued to Irish Water in January 2016. These are:

- the suggested principles of conservation and water stewardship are captured within the CRU's principle of 'efficiency in use of water services';
- the suggested principle of marginal price (user-pays principle) is captured within the CRU's principle of 'cost reflectivity'; and
- the suggested principle of payment rates recovery is captured within the CRU's principle of 'cost recovery'.

Further to respondents suggesting that a water stewardship principle be introduced, the CRU welcomes Irish Water's recent announcement to develop a water stewardship and conservation pilot training programme in 2019. The programme aims to support Irish businesses as they seek to improve their water stewardship practices and impacts. Further details can be found on Irish Water's [website](#).

4.11 Volume of and Complexity of Tariff Proposals

Three respondents commented on the volume and complexity of the proposals set out in the consultation documents. Respondents highlighted the level of detail included within Irish Water's Non-Domestic Tariff Design Review and Enduring Proposals Paper and the CRU's Consultation Paper (CRU/18/114) and remarked on the difficulty to fully grasp all proposals presented. Respondents also commented on how the documents and proposals should be more explicit about where an assessment is being made at a connection or customer level.

CRU Response:

The CRU acknowledges respondents' concerns with the complexity of the proposals set out in the documents. Irish Water's Non-Domestic Tariff Framework represents a significant change to the current charging arrangements.

Given the complex and varying range of non-domestic tariff structures which evolved under the previous water industry structure, overseen by 44 different Local Authorities and Town Councils, a significant number of considerations and proposals were needed to be made by Irish Water to generate a harmonised suite of non-domestic tariffs.

When considering a harmonised suit of tariffs, Irish Water investigated and set out proposals on each element of its Non-Domestic Tariff Framework. Irish Water's proposals are inherently complex because it is trying to establish a harmonised approach to the geographic basis for charging, how customers will be classified, how tariffs will be structured as well as providing transparency regarding how its full range of costs are attributed to different customer classes.

It was prudent to provide stakeholders and respondents with sufficient information to thoroughly consider Irish Water's proposals and respond to any and all aspects being considered and proposed. The CRU recognises that the large volume of proposals may make Irish Water's Non-Domestic Tariff Framework difficult to follow. As such, the CRU has enhanced and improved several aspects of the CRU paper to improve clarity. These are:

- the enhancement of the CRU's Customer Impact Statement within the Proposed Decision Paper (see Section 1.1 of the CRU's Proposed Decision Paper);
- the inclusion of a section to help customers understand which tariff will apply to them and also how their bills may change in the future (see Section 1.3 of the CRU's Proposed Decision Paper); and
- the inclusion of summary tables to demonstrate which aspects of Irish Water's proposals have changed (see Appendix 1 of the CRU's Proposed Decision Paper).

Additionally, Irish Water's *Customer Information Paper* (CRU/19/045) better explains how customers may be impacted by detailing nine customer examples (case studies). Irish Water has also improved its online Business Tariff Calculator¹¹ which will now advise customers whether or not it is likely that they will move non-domestic customers to the final enduring tariffs at the start of Q2 2020 or whether a transitional arrangement will be necessary to move customers to the final enduring tariffs more gradually. The CRU also requested Irish Water to set out its strategy to communicating to its customers, this is set out in Section 5 of its *Customer Information Paper*.

¹¹ Irish Water's online Business Tariff Calculator can be found [here](#).

4.12 Irish Water's Future Capital Investments

Three respondents highlighted their concern regarding Irish Water's ability to deliver the necessary water and wastewater capital investment into the future. One respondent remarked on the need to devise a tariff framework that allows for the necessary investments in water and wastewater infrastructure while another respondent highlighted their concern about Irish Water's ability to deliver sizeable investments given that the cost recovery ratio (the percent of revenue to be collected from domestic and non-domestic sources) is fixed for the foreseeable future. One respondent also highlighted their concern regarding the potential for business costs to continue to increase as long-term investments are made by Irish Water.

CRU Response:

Irish Water's capital investment requirements are set out in its revenue control submission to the CRU. It is during this process that Irish Water's capital investment plan is reviewed, consulted on and determined for the following revenue control period.

Irish Water's Non-Domestic Tariff Framework proposals specifically focus on the establishment of its non-domestic tariff design and transition arrangements and not Irish Water's capital investment requirement. However, the CRU acknowledges that this framework forms an integral part of Irish Water's revenue recovery and the funding of operational and capital costs, specifically the determination of costs to be collected from domestic and non-domestic sources.

With respect to respondents who are concerned about Irish Water's ability to deliver sizeable infrastructure investment given the determination of costs to be collected from domestic and non-domestic sources (Section 5.5 of the CRU's Proposed Decision Paper), such a determination is not meant to conclude the exact amount of revenue (in euro) to be collected from domestic and non-domestic sources, rather it sets out the percentage of Irish Water's total allowed revenue to be collected from domestic and non-domestic sources. As such, Irish Water's ability to deliver sizeable infrastructure is not affected by the output of its cost allocation exercise.

For the 3-year transition period non-domestic tariff levels will remain unchanged. Thus, any increase in investment costs over this period will not be included in the non-domestic tariff levels until after the completion of the 3-year transition period. With respect to concerns regarding continued capital investment and the impact this has on future non-domestic charges, as part of the Revenue Control 3 for the period between 2020 – 2024, the CRU may assess the possibility of profiling capital investment across these 5 years to improve tariff stability for customers. Further, capital investment is capitalised in the regulatory asset base and is recovered over a number of years via the associated depreciation and return on capital elements of the revenue control. In this way, volatility of non-domestic charges is minimised.

4.13 Accuracy of Underlying Data

One respondent raised concerns regarding the accuracy of Irish Water’s underlying data used to underpin the Tariff Framework, in particular the accuracy of meter reads in areas where new non-domestic meter upgrades have not been carried out.

CRU Response:

While there is sufficient data to allow Irish Water to generate new tariffing proposals, it is important to recognise that there are some limitations in the billing and consumption data available to Irish Water at this point in time. For example, Irish Water does not have metering and supply pipe size data for many of the non-domestic connections. This has limited the options available to Irish Water when designing the new non-domestic tariffs.

The CRU understands that Irish Water has begun a programme to survey and inspect non-domestic metering stock to confirm meter asset details and performance. This will inform existing and future maintenance and replacement programmes, which will progressively address this issue over time.

Irish Water will also continue to enhance its current asset management and accounting systems in identifying and recording cost information associated with a particular service provision and customer tariff grouping. This will improve the data available on all non-domestic connections over time.

4.14 Clarity on Expected Billing Frequency

One respondent sought clarity as to whether non-domestic billing frequencies will change or be harmonised across the country in advance of the implementation of the new Framework.

CRU Response:

The CRU is aware that there is a wide variation of non-domestic billing frequencies in existence across the country. These are, monthly, every 3 months, quarterly, every 6 months and yearly. While harmonising these billing frequencies is not part of the Non-Domestic Tariff Framework, the CRU is aware that Irish Water intend to rationalise these billing frequencies and introduce a standard bill frequency. Please note that any changes to the existing non-domestic billing frequencies that may be proposed by Irish Water will be subject to public consultation before any changes are implemented to ensure customers can provide their views.

4.15 Sustainable Regional Development

One respondent remarked that the charging regimes within local authorities, had in the past, acted as a “lever” for attracting and retaining development in a locality. With the harmonisation of the charges, this lever has been removed and may affect regional development.

CRU Response:

Irish Water’s Strategic Funding Plan¹² sets out its deliverables for 2019-2024, one of which is to support the National Planning Framework and Regional and Spatial Economic Strategies. As the national utility with responsibility for the operation and maintenance of water and wastewater assets, Irish Water was established to provide safe, clean and environmentally compliant water and wastewater services to households and non-domestic customers connected to the public network. The implementation of a single public utility will allow Irish Water to deliver enhanced services regionally. As such, it is envisaged that Irish Water’s strategic investment will positively impact all regions and improve service provision across the country.

4.16 Under-Recovery of Revenue

A number of respondents commented on the recovery of revenue from non-domestic customers. One respondent raised concern regarding any potential loss of income to Irish Water during the transition process. This respondent specifically raised concern that the transition may result in cross subsidisation. Another respondent was concerned that “*Given that the enduring tariffs will not be implemented until the final quarter of 2019, the revenue from non-domestic users during calendar 2019 is likely to be rather less than €208m. This discrepancy must not be treated as a revenue shortfall to be recovered from non-domestic users during Revenue Control 3*”.

CRU Response:

With respect to the concern regarding the revenue to be recovered from non-domestic customers and cross subsidisation between non-domestic classes during the transition, Irish Water’s proposals will fundamentally transition the allocation of allowed revenue from approximately 20% currently billed to non-domestic customers to the proposed 22.98% over a

¹² Irish Water’s approved Strategic Plan:
https://www.housing.gov.ie/sites/default/files/publications/files/irish_water_strategic_funding_plan.pdf

3-year period. This 22.98% will reflect the fully allocated cost of serving non-domestic customers.

As such, any shortfall in revenue in a particular year will ultimately be picked up through government subvention. See Section 5.5 of the CRU's Proposed Decision Paper for more details (CRU/19/042).

4.17 Consideration of Economies of Scale

One respondent remarked that the proposed bill increases signified that no economies of scale or efficiencies had been delivered by the amalgamation of the local authorities' water delivery functions and their transfer to Irish Water.

CRU Response:

It is important to first put the proposed bill increases into context. Since January 2014, non-domestic water and wastewater charges have been held constant at the level charged by the Local Authorities at 31 December 2013. Prior to 2014, the CRU understands that many of the Local Authorities had not changed the non-domestic charges since 2009. Given that it is expected that the existing non-domestic charge levels will continue to be applied until the new enduring tariffs are implemented, which is planned to be in Q2 2020, the majority of non-domestic prices will have been frozen for at least 10 years. However, since 2014, increased investment has been incurred to support the provision of water and wastewater services to customers. Since 2014, under the first revenue control period (IRC1), from October 2014 to December 2016, the CRU approved capital expenditure of €1.8 billion to be spent on water and wastewater services. For the second revenue control period (IRC2), for 2017 and 2018, the CRU approved capital expenditure of €1.1 billion to be spent on water services. The CRU also approved capital expenditure of €0.8 billion for 2019. Total capital expenditure has been increasing since 2014, while all non-domestic water and wastewater charges have been frozen over the same period. As such, a portion of the bill increases, as a result of the new non-domestic tariffs, takes account of the fact that non-domestic prices have remained fixed while investment in essential infrastructure has increased. The final bill impact of the CRU's proposed decision demonstrates that 46% of non-domestic connections will see bill decreases and 54% of connections will see bill increases.

As noted by this respondent, Irish Water's role was previously the responsibility of 34 (now 31) Local Authorities, and a significant amount of work is still completed by the Local Authorities on behalf of Irish Water through Service Level Agreements (SLAs). This operating model may impede Irish Water's ability to deliver cost reductions in the short term, as it will take time to implement the unified approach and common systems and processes. The CRU recognises that from an organisational perspective, a unified approach to operating water and wastewater services under one utility in the manner proposed will lead to greater efficiencies and improved services to customers over time.

The CRU is supportive of this process and acknowledges that the pace of delivery of WIOF is being determined by a wide range of stakeholders. Notwithstanding this, the CRU will continue to ensure that it challenges Irish Water to deliver efficiently, while at the same time providing a high standard of service for customers.

The way the CRU challenges Irish Water to efficiently deliver services to its customers is through the revenue control process. This process involves reviewing Irish Water's submissions, engaging with the utility, benchmarking its proposed costs against comparator companies, completing a public consultation process, and thereafter setting appropriate revenue allowances for operating costs, capital costs and other items. The most recent revenue allowance decision, which includes information on the total cost of providing water services nationally, is set out in the CRU's decision on Irish Water's allowed revenue: "Irish Water Revenue Control 2019 Revenue Control 2 (2017/2018) - One Year Extension" (CRU/18/211.).

4.18 The Timing of the Non-Domestic Tariff Framework

One respondent noted, in their view, the poor timing of the introduction of Irish Water's Non-Domestic Tariff Framework and the proposed cost increase to the non-domestic customer base.

CRU Response:

The CRU is conscious that the existing non-domestic charging arrangements are complex, not transparent and potentially inequitable. Introducing harmonised charging arrangements across the country will provide real benefits to customers. It will create a simpler charging structure than exists today, improve transparency of how charges are generated and applied to customers, it will introduce more cost reflective and equitable charges for customers. It should be the case that a more transparent, simple and equitable approach to non-domestic water and wastewater charges will support businesses, the Irish economy and inward investment. To prolong the implementation of Irish Water's Non-Domestic Tariff Framework would further delay customers, and the wider economy, from availing of these benefits.

However, the CRU recognises that price, and hence bill, changes are a key concern for customers. When introducing new tariffing arrangements to customers, a key consideration is to assess the impact that the new arrangements will have on customers' bills. A core principle of the Framework is that customer bill volatility is kept to a minimum. Under the CRU's proposed decision on the Tariff Framework, where the application of a new non-domestic tariff results in a bill increase of €250 or more, customers will be gradually transitioned from their existing tariffing arrangements to the new enduring tariff arrangements over a 3-year period. Further, for connections facing an annual bill increase of €750 or greater, a 10% cap (if required) will automatically apply to their annual bill increase in any one year to protect customers from very large bill increases. Further detail on the CRU's

proposed decision on the transitional arrangements are set out within Section 8 of the CRU's Proposed Decision Paper (CRU/19/042).

4.19 The Separation of Ervia and Irish Water

One respondent remarked on the potential separation of Irish Water from Ervia. The respondent queried whether this potential separation would impact Irish Water's current non-domestic tariff proposals.

CRU Response:

It is not envisaged that the Government policy decision to separate Irish Water from Ervia will impact on the current non-domestic tariff proposals. Irish Water will continue to be regulated by the CRU.

5 Responses Received to Consultation Questions (CRU/18/114)

The CRU's Consultation Paper (CRU/18/114) sought comments to 73 specific questions on Irish Water's proposals for a new Non-Domestic Tariff Framework. The following sections summarise respondents' principal comments in line with each section of the CRU's Consultation Paper (CRU/18/114), followed by a CRU response.

5.1 Design Element One - Geographic Basis for Charging

The geographic basis for charging considers the geographic 'level' at which charges should be set. That is, should tariffs be set to recover the regional or national costs of water and wastewater service provision. At present non-domestic tariff rates are set at a Local Authority level which has given rise to over 500 separate charges for the provision of water and wastewater services to non-domestic customers across the country. The CRU posed four questions which are shown in the textbox below.

CRU Questions

- Q1.** Do you agree with Irish Water's proposals to set tariffs on a national geographic basis? Please state your reasons why.
- Q2.** Do you agree with Irish Water's assessment of the alternative approaches to setting tariffs on a regional basis?
- Q3.** Do you agree with Irish Water's appraisal of each option of setting tariffs against the 6 tariff principles?
- Q4.** Are there other methods of setting tariffs geographically that are not considered in Irish Water's submission documents? Please state them and why they should be considered.

Summary of Responses Received

Twelve respondents commented on Irish Water's proposals to set the tariffs on a national basis. There was broad support for national tariffs. Respondents highlighted the fairness and logic of a national approach, and that applying regional tariffs would be administratively difficult for Irish Water to manage. One respondent also remarked on how regional tariffs would create higher tariff volatility in the longer term because of the impact of larger infrastructure projects within regions.

A number of respondents disagreed with charging on a national basis. One respondent supported a charging regime based on water supply zones/wastewater agglomerations while two respondents remarked on the possibility for regional variability. Specifically, these respondents stated that:

- Dublin should have its own tariff based on the costs of supplying businesses across the region; and
- there should be capability to factor in regional variations between regions (i.e. Dublin, Cork, Galway).

One respondent stated that it is unclear as to why tariffs set on a regional basis should be less stable than those set on a national basis once the appropriate cost allocation methodologies have been completed.

CRU Response:

The CRU agrees with respondents' points in relation to the benefits of setting tariffs on a national basis. A national approach would be less complex to establish and less costly to administer than regionally varying tariff structures. National tariffs are also likely to achieve more stable prices for customers when compared to regionally based tariffs.

In relation to setting tariffs based on water supply zones and wastewater agglomerations, currently there is sparse information regarding boundaries of water supply zones or wastewater agglomeration. In addition to this, there is also a potential for water supply zones or wastewater agglomerations to span over many different regions, adding an element of complexity to this approach. Further, there are approximately 1,000 water supply zones and 1,000 wastewater agglomerations in existence. Setting tariffs on the basis of water supply zones and wastewater agglomerations would result in the creation of a large number of regionally varying tariffs. This approach would be complex, costly, non-transparent and difficult for Irish Water to administer.

Other respondents suggested the creation of tariffs based on either a regional or county boundary approach. Setting regional tariffs would need to consider how to allocate the costs of certain water/wastewater activities that span many regions. For example, treatment plants located in one region that treats the water and/or wastewater of customers located in multiple regions. The cost of such assets would need to be appropriately allocated across customers located in many regions. Depending on the granularity of the regions, this adds to the complexity of such an approach and would increase Irish Water's operational costs, which would ultimately be borne by customers.

One respondent commented on how it is unclear as to why tariffs set on a regional basis should be less stable than those set on a national basis once the appropriate cost allocation methodologies have been completed. Reflecting the investment needs and expenditure of a region within that region's water or wastewater tariffs is likely to lead to a higher risk of volatility in tariff levels from year to year. For example, one region may require immediate capital investment and the costs associated would need to be recovered through the tariffs of that region causing a step change in the tariff levels. In contrast, regionally specific investment under a national approach would be recovered from all customers across the country, as such tariff volatility is kept to a minimum.

Additionally, a national approach also aligns with what is in place elsewhere. For example, the gas and electricity retail tariffs in Ireland are generally set on a national basis, where one suite

of retail tariffs apply to customers nationally and are not location specific¹³. With regard to water tariffs, we see that many of the water utilities in the United Kingdom ('UK') have adopted a model of harmonised non-domestic tariffs, where utilities offer a rationalised 'suite' of non-domestic tariffs, with approximately 2 to 7 non-domestic water tariff categories (instead of 44 in Ireland). In Northern Ireland, Scotland and Wales a 'suite' of non-domestic tariffs apply nationally. In England, one suite of tariffs apply within a region, where many of these regions contain more customers than exist in Ireland¹⁴. See Section 5.2 of the CRU's Proposed Decision Paper for more details (CRU/19/042).

5.2 Design Element Two - Customer Classification

Section 5.3 of the CRU's Consultation Paper (CRU/18/114) on Irish Water's Non-Domestic Tariff Framework Proposals outlined Irish Water's proposals to classifying its non-domestic customer base into groups for the purpose of setting tariffs for water and wastewater service provision. The first subsection sets out the responses to Irish Water's proposals regarding its method to classifying metered water and wastewater customers into customer tariff classes and the second sets out the responses to Irish Water's proposed metered customer tariff classes.

5.2.1 Irish Water's Considerations for Metered Water and Wastewater Non-Domestic Customer Classification Method

The CRU's Consultation Paper (CRU/18/114) set out four questions related to Irish Water's proposed method for classifying metered water and wastewater non-domestic customers. These questions are captured below.

CRU Questions

- Q5.** Do you agree with Irish Water's proposals to classify customers for water supply charges based upon annual consumption? Please state your reasons why.
- Q6.** Do you agree with Irish Water's assessment of the alternative approaches to classifying metered water non-domestic customers?
- Q7.** Do you agree with Irish Water's appraisal of each option against the 6 tariff principles?

¹³ However, there can be separate urban and rural electricity retail charging arrangements offered by suppliers across the country.

¹⁴ In Appendix 2 of the CRU's Proposed Decision Paper, the CRU provides further details on the number of metered water tariff categories offered to customers in a number of other jurisdictions. Please see Table 10 – "International Precedent – Geographic Basis for Charging Non-Domestic Customers".

Q8. Are there other methods of categorising non-domestic metered water customers that are not considered in Irish Water’s submission documents? Please state them and why they should be considered.

Summary of Responses Received

Eleven respondents commented on Irish Water’s proposals to classify its non-domestic customers for water and wastewater charges based on annual consumption. Nine respondents agreed with Irish Water’s proposal to classify customers for water charges based on annual consumption noting that it is a reasonable approach and provides the basis for equitable cost recovery. One respondent remarked that it would be more meaningful to classify non-domestic customers based on their contribution to daily peak flow but acknowledged that such an approach would be complex and costly to implement given, in the respondent’s view, neither meter size nor pipe size would be a reliable proxy.

Two respondents remarked on the need to incentivise efficient use of water, with one respondent highlighting the demand incentives in operation in the energy market.

CRU Response:

There was broad support for Irish Water’s proposals to classify non-domestic customers for water and wastewater charges based upon annual consumption. The CRU agrees with respondents’ views that this is a reasonable approach.

One respondent noted that *“it would be more meaningful to classify non-domestic water and wastewater customers by their maximum contribution to daily peak flow”*, however as described in Irish Water’s Non-Domestic Tariff Design Review and Enduring Proposals Paper (CRU/18/115), the limited availability of asset data (specifically meter size and pipe diameter) limits the practical options available to Irish Water. Without having complete data of meter and supply pipe diameters, Irish Water is unable to group or ‘classify’ customers into tariff classes or apply tariffs using either of these parameters. However, each customer’s class’ contribution to peak has been taken account of within Irish Water’s cost allocation exercise. The contribution to peak effect relates to the principle that water treatment capital costs are generally sized to meet peak water demand on the system, and thus driven by a customer’s contribution to peak system demand. How each customer class’s peak demand requirement contributes to the system peak demand differs across the customer classes, and this is taken into account when allocating water treatment capital costs across the classes.

With respect to demand side incentives and the need to incentivise efficient water use, the CRU has made a number of changes to the tariff structures to further strengthen incentivise water conservation. See Section 5.5 of the CRU’s Proposed Decision Paper for more details (CRU/19/042).

5.2.2 Irish Water's Considerations for Metered Water and Wastewater Customer Classes

The CRU's Consultation Paper (CRU/18/114) set out five questions related to Irish Water's proposed metered water and wastewater customer classes. These questions are captured below.

CRU Questions

- Q9.** Is Irish Water's proposal to introduce three separate water tariff classes appropriate? Are Irish Water's proposed annual volume thresholds appropriate? Please state your reasons why.
- Q10.** Is Irish Water's proposal to introduce three separate wastewater tariff classes appropriate? Are Irish Water's proposed annual volume thresholds appropriate? Please state your reasons why.
- Q11.** Do you agree with Irish Water's assessment of the alternative approaches to setting tariff classes non-domestic customers?
- Q12.** Do you agree with Irish Water's appraisal of each option against the 6 tariff principles?
- Q13.** Are there alternative volume thresholds to delineate between water and wastewater tariff classes that should be considered? Please state your reasons why.

Summary of Responses Received

Seventeen respondents commented on Irish Water's proposals to group its customers into customer classes for tariffing purposes, with three respondents agreeing with Irish Water's proposals for three customer classes. Respondents commented on four separate aspects relating to the classification of non-domestic customers; the number of customer classes, the threshold levels, the boundary effect and Irish Water's proposed names for its customer classes. The principal responses are captured below.

Number of Customer Classes

A significant number of respondents argued for the introduction of a fourth customer class. For example:

- Five respondents reasoned that a fourth category should be introduced for larger consumption bands (i.e. >20,000m³) with one respondent proposing that non-domestic customer using >2,000,000m³/year should be dealt with on a case-by-case basis or should be established as an additional customer class; and
- One respondent suggested that the commercial category should be sub-divided further while another respondent felt that the commercial category was too broad.

Threshold Levels

Respondents requested more information on how the thresholds and customer classes were determined by Irish Water. Specifically, respondents sought clarity and more detailed information on how Irish Water settled on the threshold volumes (m³/annum) to delineate each of its proposed customer classes. One respondent requested clarity on Irish Water's proposed basis for classifying customers, specifically, is customer classification based on a customer's consumption during the previous calendar year?

Boundary Effect

The Boundary effect describes the bill change when a customer marginally increases or decreases their consumption and moves into a separate customer class.

A number of respondents also highlighted their concern with respect to the boundary effect between customer classes. Respondents remarked on the step changes in average unit cost at the boundary of 20,000m³ and the implications for the average unit cost at each class' boundary. Related to this, another respondent stated that "...Irish Water's proposal in relation to standing and volumetric charges will create inequity at the thresholds of 1,000m³ and 20,000m³."

Name Change

Two respondents noted issues with Irish Water's proposed customer classification names and that in the interest of simplicity and clarity, the names of each customer class should be changed. Respondents highlighted that the proposed customer class names could be misleading given that they are based on volume bands and not the activity type of each connection.

CRU Response:

The CRU notes respondents' comments on the number of customer classes, threshold levels, boundary effect and the naming of non-domestic customer class. Each of which are discussed below. See Section 5.3.2 of the CRU's Proposed Decision Paper for more details on proposed metered water and wastewater customer classes (CRU/19/042).

Number of Customer Classes

Noting respondents' comments, the CRU assessed the potential for the introduction of a fourth customer class and requested Irish Water to consider and investigate the possibility of introducing an additional tariff class. The CRU is of the view that a fourth customer class for connections that consume/discharge a volume equal to or greater than 250,000m³ per annum should be introduced. This is on the basis that there is a cost differential to support a fourth class, the addition of a fourth class achieves greater cost reflectivity and the introduction of a fourth customer class better aligns with international practice.

With respect to respondents requesting the establishment of customer classes for large non-domestic connections on a case-by-case basis, the CRU is of the view that this approach lacks transparency and may introduce equity issues.

Threshold Levels

With respect to respondents' request for more information on how the thresholds and customer classes were determined, upon request from the CRU Irish Water's submitted additional information justifying its choice of thresholds for each customer class. This is summarised in Section 5.3.2 of the CRU's Proposed Decision Paper (CRU/19/042).

Respondents also requested clarity on Irish Water's proposed basis for classifying its customers and how this will work in practice. Irish Water will set out the details of its proposed process to classifying customers in Phase 2 of this Project (in Q4 2019).

Boundary Effect

The CRU also evaluated the boundary effect of Irish Water's proposals prior to and after the introduction of an additional tariff class. The CRU's proposed decision in relation to the introduction of a fourth customer class and the changes made to the allocation of costs to the standing charge and volumetric charge (see Section 5.5.5 of the CRU's Proposed Decision Paper (CRU/19/042)) had a positive impact on the boundary effect at the thresholds between customer classes. The CRU recognises that a small number of connections, that have consumption close to the boundary between classes, could face a large change in their annual bill amount if their consumption changes marginally below and above the customer class threshold (often called the 'boundary effect'). The CRU will engage with Irish Water to understand what measures could be put in place to help mitigate bill increases for these connections.

Name Change

The CRU agrees with respondents' comments highlighting how Irish Water's proposed customer class names of 'Standard', 'Commercial' and 'Industrial' may not be appropriate given that a customer class (and thus whether a connection falls into a particular class) is determined by the volume consumed/discharged, and not 'activity type' (in the case of the 'Commercial' and 'Industrial' class names). This may be confusing for customers as there may be connections who would deem themselves as a 'commercial' enterprise but could be classified as 'Standard' or 'Industrial' for tariffing purposes based on their annual volume consumed and/or discharged. Furthermore, there are connections that are a 'non-domestic' consumer of water but not engaged in a business activity, such as airports, schools and hospitals.

The CRU requested that Irish Water consider this point and put forward new customer class names for each of the four classes. Irish Water proposed customer class names of 'Band 1', 'Band 2', 'Band 3' and 'Band 4'. Irish Water is of the view that these class names are simple, avoids unnecessarily labelling of different customer types, and can be easily amended in future if necessary. The CRU's proposed decision is to approve these new names proposed by Irish Water. See Section 5.3.2 of the CRU's Proposed Decision Paper for more details (CRU/19/042).

5.3 Design Element Three - Tariff Structures

Section 5.4 of the CRU's Consultation Paper (CRU/18/114) on Irish Water's Non-Domestic Tariff Framework Proposals outlined Irish Water's proposals regarding tariff structures. Tariff structures relate to the set of rules and charging components that are used to determine non-domestic bills for each of Irish Water's proposed customer classes. This section sets out the responses related to the following Irish Water tariff structure proposals:

- the basis for water and wastewater charging;
- the application of tariffs on a single or combined service basis;
- the design of its volumetric charge component;
- the structure of its unmetered charges; and
- the structure of charges for metered mixed-use customers.

5.3.1 Irish Water's Considerations for its Basis for Water and Wastewater Charging

The CRU's Consultation Paper (CRU/18/114) set out four questions related to Irish Water's proposed basis for water and wastewater charging. These questions are captured below.

CRU Questions

- Q14.** Do you agree with Irish Water's proposals to apply tariffs at a connection level? Please state your reasons why.
- Q15.** Do you agree with Irish Water's assessment of other methods of calculating and applying charges to customers (i.e., site level or account level)?
- Q16.** Do you agree with Irish Water's appraisal of each option against the 6 tariff principles?
- Q17.** Are there other methods of calculating and applying charges to customers that are not considered in Irish Water's submission documents? Please state them and why they should be considered.

Summary of Responses Received

Eight respondents commented on Irish Water's proposals to apply tariffs on a connection basis, two of which agreed with Irish Water's proposals to apply tariffs on a connection basis.

Respondents agreed that Irish Water's proposals were sensible, however six respondents suggested that non-domestic customers with multiple connections or meters should be considered separately. Three respondents suggested that consideration should be given to sites

that have multiple connections due to historical or legacy reasons, with one respondent suggesting that a transition period should be introduced to allow customer to consolidate or remove multiple connections without financial penalty.

One respondent proposed that for large water users, there may be scope to charge on a site basis. One respondent suggested that the Framework could include a mechanism to rebalance standing and variable charges where multiple meters exist per customer, while two respondents made the point that customers with multiple connections should be charged for all connections on the same bill.

CRU Response:

In relation to concerns raised with respect to the application of standing charges per connection for sites with multiple connections. The CRU notes that Irish Water's proposal to apply water and wastewater tariffs on a connection basis is in line with the practice previously applied by Local Authorities. However, the CRU is aware that in a minority of Local Authorities, the charging arrangements included a discount to the standing charge level (for example, the 2nd and 3rd meter at a premises).

The CRU engaged with Irish Water to understand the prevalence of this discount and understands that there are a very small number of customers currently availing of a discounted standing charge. Also, in general these connections would be classified in the 'Standard' class (or now called the 'Band 1' class). Under the CRU's proposed decision, the new enduring standing charge for the Band 1 class is lower than approximately 76% of the existing LA standing charges, which will help mitigate bill increases for customers with multiple connections. Further, across all customer classes, should any connection see an increase in their annual bill of €250 or greater, the CRU is proposing that Irish Water gradually transition connections to their new tariffs over a 3-year period, thereby protecting customers from large bill increases.

With respect to the suggestion to apply tariffs at a site level, at this time, Irish Water does not have robust data and cost information to set tariffs at a site level. As such, this approach cannot be considered. Also, as highlighted within the CRU's Consultation Paper (CRU/18/114) and Proposed Decision Paper (CRU/19/042), a connection drives the overall size of Irish Water's network and operations over the long-term and therefore the substantive element of costs. Although some elements of Irish Water's costs may be explained by the number of sites or customer accounts (e.g. the costs of customer account management), these costs are likely to be relatively small. For example, in relation to water service provision, the number (and size) of the connections determines the network and water resource and treatment capacity that Irish Water needs to make available to meet prospective demand. Given this, the CRU is of the view it is appropriate to apply tariff on a connection basis. See Section 5.4.1 of the CRU's Proposed Decision Paper for more details (CRU/19/042).

In relation to respondents seeking to receive a single bill that includes the charges for each connection, customers can contact Irish Water to understand if this can be facilitated.

5.3.2 Irish Water’s Considerations for the Application of Tariffs on a Single or Combined Service Basis

The CRU’s Consultation Paper (CRU/18/114) set out four questions related to Irish Water’s proposed application of tariffs. These questions are captured below.

CRU Questions

- Q18.** Do you agree with Irish Water’s proposals to apply tariffs on a per service basis? Please state your reasons why.
- Q19.** Do you agree with Irish Water’s assessment of the other approach to charging?
- Q20.** Do you agree with Irish Water’s appraisal of each option against the 6 tariff principles?
- Q21.** Are there other approaches to calculating and applying tariffs that are not considered in Irish Water’s submission documents? Please state them and why they should be considered.

Summary of Responses Received

Seven respondents commented on Irish Water’s proposals to apply tariffs on a single or combined service basis. All seven respondents agreed with Irish Water’s proposal to apply tariffs on a per service basis. Respondents mentioned that customers should not be expected to pay for services that they do not avail of and that applying tariffs on a single service will help promote efficiency and offset inefficient usage.

CRU Response:

The CRU notes and agrees with respondents’ comments which relate to the application of tariffs on a single or combined service. The CRU is of the view that it would be inequitable to calculate and apply a single charge for a combination of services only, as it would mean that customers requiring only a single service would subsidise customers with a combined service. Also, applying separate tariffs per service is in line with international precedent elsewhere. See Section 5.4.2 of the CRU’s Proposed Decision Paper for more details (CRU/19/042).

5.3.3 Irish Water’s Considerations for the Structure of Charges for its Metered Charges

The CRU’s Consultation Paper (CRU/18/114) set out four questions related to Irish Water’s proposed structure of charges for its metered tariffs. These questions are captured below.

CRU Questions

- Q22.** Do you agree with Irish Water’s proposals to apply a two-part tariff? Please state your reasons why.
- Q23.** Do you agree with Irish Water’s assessment of other approaches to structuring tariffs?
- Q24.** Do you agree with Irish Water’s appraisal of each option against the 6 tariff principles?
- Q25.** Are there other methods of designing tariff structures that are not considered in Irish Water’s submission documents? Please state them and why they should be considered.

Summary of Responses Received

Five respondents commented on Irish Water’s proposals to apply a two-part tariff. Four respondents agreed with Irish Water’s proposals. Respondents recognised the importance of revenue recovery and the need to incentivise the efficient use of water. One respondent remarked that *“A two-part tariff makes sense. Most of Irish Water’s costs are variable either in the short run (e.g. electricity and chemicals) or the longer run (e.g. capex and maintenance) whereas some items are less strongly correlated with consumption volumes”*. One respondent remarked on the level of the standing charge for the Industrial Class proposed by Irish Water and that this is much higher than prevailing standing charge levels.

CRU Response:

The CRU notes respondents’ views in support for Irish Water’s proposal for two-part tariffs. As noted in the CRU’s Consultation Paper and highlighted by respondents, the design of a tariff can influence efficiency in the use of water and wastewater services, equity across customers, price stability, transparency, and cost recovery for the utility.

Irish Water’s proposal to establish a ‘two part’ tariff is common practice in other jurisdictions, where a standing charge is generally applied to recover certain costs incurred in serving the customer irrespective of demand (for example, billing and meter reading costs, maintaining the connection). The residual costs of providing the service are recovered via a variable

charge, which is applied per unit of water consumed or wastewater discharged by the customer.

A respondent noted that the proposed standing charge for the Industrial customer class ($\geq 20,000\text{m}^3$) is larger than prevailing Local Authority tariffs. The CRU has since revised a number of Irish Water's proposals for allocating costs to the standing and volumetric charges which have the effect of lowering the standing charge levels in most customer classes, which places a greater incentive on customers to conserve water and gives more scope to customers to reduce their bill (as a larger portion will be made up of the volumetric charge).

See Section 5.5.5 of the CRU's Proposed Decision Paper for more details (CRU/19/042).

5.3.4 Irish Water's Considerations for the Design of its Volumetric Charge Component

The CRU's Consultation Paper (CRU/18/114) set out four questions related to Irish Water's proposed design of its volumetric charge component. These questions are captured below.

CRU Questions

- Q26.** Do you agree with Irish Water's proposal to set a uniform volumetric rate structure differentiated by customer class?
- Q27.** Do you agree with Irish Water's assessment of other approaches to designing the volumetric charge?
- Q28.** Do you agree with Irish Water's appraisal of each option against the 6 tariff principles?
- Q29.** Are there other methods to designing the volumetric charge that are not considered in Irish Water's submission documents? Please state them and why they should be considered.

Summary of Responses Received

One respondent commented on Irish Water's proposals to set a uniform volumetric rate structure differentiated by customer class and noted that "*...in effect (indirectly), this is a decreasing block tariff model (when each customer class fully matches a band)*".

CRU Response:

The CRU notes the respondents' comment related to the design of Irish Water's volumetric charge component and is of the view that Irish Water's proposal to introduce a uniform volumetric unit rate structure is simple, transparent and easy for customers to understand.

See Section 5.4.4 of the CRU's Proposed Decision Paper for more details (CRU/19/042).

5.3.5 Irish Water's Considerations for the Structure of its Unmetered Charges

The CRU's Consultation Paper (CRU/18/114) set out four questions related to Irish Water's proposed structure of its unmetered charges. These questions are captured below.

CRU Questions

- Q30.** Do you agree with Irish Water's proposals regarding the structure of unmetered tariffs? Please state your reasons why.
- Q31.** Do you agree with Irish Water's assessment of other approaches to structuring unmetered tariffs?
- Q32.** Do you agree with Irish Water's appraisal of each option against the 6 tariff principles?
- Q33.** Are there other methods of designing unmetered tariffs that are not considered in Irish Water's submission documents? Please state them and why they should be considered.

Summary of Responses Received

Five respondents commented on Irish Water's proposals regarding the structure of unmetered tariffs. A number of respondents agreed with Irish Water's unmetered proposals acknowledging that given the relatively small number of unmetered connections in this non-domestic customer class, it is sensible to keep unmetered arrangements simple and straightforward.

Three respondents agreed with the CRU's observation that existing very high fixed unmetered charge connections should be either metered or an assessed based unmetered charge introduced. While one respondent noted that unmetered customers should in the medium term be metered and highlighted issues with "...equity in cost allocation and cross-subsidisation".

CRU Response:

The CRU agrees with respondents' views that Irish Water's proposals for unmetered customers is simple and straightforward given the relatively small number of unmetered connections in the non-domestic customer base.

One respondent remarked that all unmetered connections should be metered in the medium term. While the most cost reflective and appropriate way of charging non-domestic customers is to install a meter, the CRU understands that in some cases it is uneconomic or technically infeasible to install a meter. As such, developing an unmetered charge is likely to always be necessary. Such a charge is also in line with international precedent.

In relation to respondents' comments regarding the CRU's observation Consultation Paper (CRU/18/114) that it would be more equitable for Irish Water to review existing high-tariffed unmetered connections and either meter these connections or introduce an assessed based charging arrangements for these types of connections, following the consultation the CRU requested that Irish Water put forward a proposal on how best to address unmetered connections with very high fixed charges.

Irish Water advised the CRU that there are approximately 30 unmetered connections whose existing unmetered charge would indicate that their volume is likely to be commensurate with connections falling within the 'Band 2 Class'. The CRU is of the view that it would be more appropriate to use the lowest 'Band 2' usage (1,000m³/annum) to calculate this Band 2 unmetered charge. This would result in an unmetered charge of €3,369.10 per year for a combined service connection¹⁵.

The CRU recognises that creating assessed based charging arrangements would be the most cost reflective approach to charging these connections. However, developing such arrangements would be information intensive and would require time and costs to fully develop an assessed based charging methodology. The CRU is of the view that, given that there are only approximately 30 'Band 2' unmetered connections, the costs of developing and implementing assessed based charging arrangements for only a small number of connections would outweigh the benefits.

See Section 5.4.5 of the CRU's Proposed Decision Paper for more details (CRU/19/042).

5.3.6 Irish Water's Considerations for its Structure of Charges for metered Mixed-Use Customers

The CRU's Consultation Paper (CRU/18/114) set out two questions related to Irish Water's proposed structure of its metered mixed-use customers. These questions are captured below.

¹⁵ ¹⁵ The full details of the Band 2 Unmetered tariffs for each service are set out in Section 1 of the CRU's Proposed Decision Paper (CRU/19/042).

CRU Questions

Q34. Do you agree with Irish Water’s proposals to charge the non-domestic portion of mixed-use connections? Please state your reasons why.

Q35. Are there other methods of charging for the non-domestic portion of mixed-use premises that are not considered in Irish Water’s submission documents? Please state them and why they should be considered.

Summary of Responses Received

Seventeen respondents commented on Irish Water’s proposals to charge the non-domestic portion of mixed-use connections.

A number of respondents agreed that Irish Water’s proposals to charge mixed-use connections appeared reasonable. However, one respondent suggested an alternative method of capturing and charging for the non-domestic portion of a mixed-use premises, explaining that some customers “...*may be happy/want to have separate connections for the non-domestic and domestic usage*”, arguing that customers should at least be given this option.

In relation to the Domestic Allowance (‘DA’) value, a number of respondents acknowledged Irish Water’s proposal to set the DA equal to the threshold amount set by the Minister (i.e., 213m³/annum) for mixed-use premises with 1 to 4 occupants (and also provide an additional allowance of 25m³/annum per person for premises with more than 4 occupants), in order to achieve parity between domestic customers and the domestic portion of mixed-use customers year (or 213m³ per year). However, three respondents argued that the allowance is too low.

Other respondents sought clarity regarding the application of the DA to particular non-domestic connection types, for example, in respect of short-term private rental accommodation/Airbnb market, nursing homes, and public group water schemes.

CRU Response:

The CRU agrees with respondents’ comments that Irish Water’s proposals to charge the non-domestic portion of mixed-use premises are reasonable.

In relation to Irish Water’s proposal regarding the value of the DA, given that mixed-use properties avail of water and wastewater services for both domestic and non-domestic purposes, aligning with the Statutory Instrument No. 597/2017¹⁶ (“*Water Services Act 2007 (Threshold Amount and Allowance Amount) Order 2017*”) helps to achieve parity between domestic customers and the domestic portion of mixed-use customers. This Ministerial Order specifies a ‘threshold’ and an ‘allowance amount’ below which Irish Water shall provide water

¹⁶ Statutory Instruments S.I. No. 597 of 2017 - <http://www.irishstatutebook.ie/eli/2017/si/597/made/en/pdf>

services, without charge, to a domestic customer. The 'threshold amount' is specified as 213,000 litres per year (or 213m³ per year). The Ministerial Order also specifies that dwellings having more than 4 residents are given an additional 'allowance amount' of 25,000 litres per year (or 25m³ per year) above the threshold amount for every person beyond 4 persons ordinarily resident in the dwelling. The CRU is of the view that Irish Water's proposed approach to charging mixed-use connections is appropriate and is in line with legislation. Further, applying the same DA value nationally achieves greater equity across the customer base.

In relation to one respondent's suggestion that customers should be given the option to have separate connections for non-domestic and domestic usage on their premises, customers can contact Irish Water to enquire if this can be facilitated and evaluate if it makes economic sense. Any modification or introduction of a new connection would be implemented under Irish Water's new Connection Charging Policy.

The CRU notes the respondent's comments seeking clarity regarding the application of the DA to particular non-domestic connection types. Please see the CRU's response to general comment "Customer Classification for the Purposes of Charging" (Section 3.4) above where this is further discussed.

5.3.7 Differentiated Tariff Arrangements

The CRU's Consultation Paper (CRU/18/114) set out three questions related to differentiated tariff arrangements. These questions are captured below.

CRU Questions

Q36. Should Irish Water consider offering interruptible tariffs within the Framework or at a future point in time? Please state your reasons why.

CRU Questions

Q37. Should Irish Water consider offering non-potable tariffs within the Framework or at a future point in time? Please state your reasons why.

CRU Questions

Q38. Should Irish Water consider offering seasonally differentiated tariffs within the Framework or at a future point in time? Please state your reasons why.

Summary of Responses Received

Twelve respondents commented on the questions relating to differentiated tariff arrangements. Three respondents commented on interruptible tariffs, four on non-potable tariffs and five on seasonally differentiated tariffs.

With respect to interruptible tariffs, respondents commented on the potential unforeseen consequences on Irish Water's revenue and how such charging arrangements would not suit the agricultural sector if they were to be introduced. One respondent was in favour of the introduction of such charging arrangements where practical and efficient to do so.

Regarding non-potable tariffs, respondents acknowledged that such arrangements would require resources and/or infrastructure to be put in place. Two respondents suggested that such arrangements should be considered where practical and efficient to do so while another respondent suggested that such arrangements would require sufficient lead in time and may also require state sponsored incentives to allow non-domestic customers to invest in on-site infrastructure.

The five respondents that commented on seasonally differentiated tariffs highlighted the complexity of introducing such charging arrangements and how such arrangements may adversely affect season-independent demand customers and tourism businesses. Two respondents suggested that seasonally differentiated tariffs should be considered. These respondents highlighted that further consideration of seasonally differentiated tariffs may be necessary given the future unpredictability of seasonal rainfall and the potential for long droughts to become the new normal in future years.

CRU Response:

The CRU notes respondents' comments regarding the introduction of differentiated tariffs.

As set out in the CRU's Proposed Decision Paper (CRU/19/042), there are inherent challenges with the introduction of interruptible, non-potable or seasonally differentiated tariffs.

The design of an interruptible tariff, and the discount to the standard tariff, requires a thorough understanding of the avoided incremental treatment and distribution capacity cost to meet peak demand, which will inform the basis for the discount. This is not well understood at this moment in time. Further, any interruptible tariffs would have to be accompanied by comprehensive eligibility criteria as well as rules and procedures for when and how a non-domestic customers' water service is to be interrupted. There is also an administrative cost to Irish Water of developing such arrangements, while the demand for interruptible services is uncertain.

As recognised by respondents, a non-potable water service generally requires a separate, non-potable water infrastructure. In many cases this may not be economically feasible to do. As well as additional and separate mains infrastructure, non-domestic properties may need to be retro fitted to accommodate a non-potable water service. Given that there is not a separate

mains infrastructure to distribute non-potable water, the CRU is of the view that it is not economically feasible to introduce a non-potable service to customers at this point in time.

With respect to a seasonally differentiated service, Irish Water does not have sufficient data to accurately assess whether the variation in the cost of supply across seasons is insufficient to justify the development of seasonal charging arrangements. At this point in time seasonally differentiated tariffs will not form part of the Non-Domestic Tariff Framework.

To summarise, the CRU must have regard to the benefits, costs and complexity of introducing differentiated tariffs and the CRU is proposing not to introduce these arrangements in the Framework at this point in time. However, the CRU expects Irish Water to keep such arrangements under review and reassess once the relevant data is gathered and considered by Irish Water. See Section 5.4.7 of the CRU's Proposed Decision Paper for more details (CRU/19/042).

5.4 Design Element Four - Cost Allocation

This Section summarises the responses received related to Irish Water's proposals regarding:

- its proposed 'cost allocation methodology';
- its proposed cost allocation 'cost drivers' and adjustments;
- its use of the Allowed Revenue cost structure breakdown;
- its proposed rules to allocate costs to the standing and volumetric charges for each customer class; and
- how it accounts for other revenues, such as revenues associated with trade effluent charging, public group water schemes and legacy agreements within the cost allocation exercise.

5.4.1 Irish Water's Considerations for its Cost Allocation Methodology

Irish Water's first step in allocating costs was to determine what methodology of cost allocation to use. Irish Water's proposals are set out in Section 5.5.1 of its the CRUs consultation on *Irish Water's Non-Domestic Tariff Design Review and Enduring Proposals* submission document (CRU/18/115). The CRU's Consultation Paper (CRU/18/114) set out four questions related to Irish Water's proposed cost allocation methodology. These questions are captured below.

CRU Questions

- Q39.** Do you agree with Irish Water's proposals to use a Fully Allocated Cost Approach to setting tariffs? Please state your reasons why.
- Q40.** Do you agree with Irish Water's assessment of the alternative methods to allocate costs?
- Q41.** Do you agree with Irish Water's appraisal of each option against the 6 tariff principles?
- Q42.** Are there other methods of allocating costs that are not considered in Irish Water's submission documents? Please state them and why they should be considered.

Summary of Responses Received

In general, respondents focused their comments on the output of Irish Water's proposed cost allocation methodology, specifically the change in the allocation of Irish Water's total costs to the non-domestic sector from 20% to 24%¹⁷. Responses ranged from concerns that Irish Water's proposals result in an over allocation to non-domestic customers, the basis for the increase is not clear and that the cost allocation exercise seemed to be carried out on a subjective basis. Respondents also believed that Irish Water's proposed allocation method leads to much of the burden of the increase to the non-domestic sector being borne by Commercial and Industrial non-domestic customer classes.

CRU Response:

The CRU notes respondents' comments regarding Irish Water's proposed cost allocation methodology and the concern regarding the change in the allocation of Irish Water's total costs to the non-domestic sector from approximately 20% to 24.09%. Please note that following the consultation on Irish Water's proposals, the CRU has made a number of changes to Irish Water's proposed cost allocation approach and the outturn allocation to the non-domestic sector is now 22.98%. However, the CRU notes that the respondents' points still stand, and these are discussed below.

It is important to point out that the development of the Framework provides the first opportunity to evaluate, on a national basis, the costs of providing water and wastewater services to each of the domestic and non-domestic customer bases. Previously, each Local Authority billed non-domestic customers located within its local authority boundary the non-domestic charges applicable in that authority. There is significant variation in the levels, structures and application of these charges across the country. The current 20% share of Irish Water's total allowable costs that is billed to the non-domestic sector is simply the sum of all of the separate billed amounts to non-domestic customers across the country. It is not

¹⁷ Please note that the 24.09% cost allocation represent Irish Water's proposals, published in June 2018. The CRU's proposed decision now results in a non-domestic allocation of 22.98% (see Section 5.5.6 of the CRU's Proposed Decision Paper (CRU/19/042) for more details).

based on a detailed assessment of the cost to serve different type of connections on a national basis.

The 24.09% output of Irish Water's cost allocation exercise (proposed in the consultation paper in June 2018) is the result of Irish Water's detailed analysis to understand how costs are driven and who drives those costs. Irish Water followed a systematic approach to disaggregating costs and applying costs drivers to apportion those costs across the customer classes. Since the consultation, the CRU has made proposed changes to the Irish Water's cost allocation approach. These are set out in detail within Section 5.5 of the CRU's Proposed Decision Paper (CRU/19/042) and results in an allocation of 22.98% to the non-domestic sector.

Where the application of a new non-domestic tariff results in bill increases, consideration was given to putting in place arrangements that gradually transition customers from their existing tariffing arrangements to the new enduring tariff arrangements over a period of time. This is a critical element of the Framework and the CRU required that Irish Water develop and propose arrangements to transition customers to the new enduring tariffs. These arrangements are set out in Section 8 of the CRU's Proposed Decision Paper (CRU/19/042).

Regarding respondents commenting on the lack of clarity, the CRU acknowledges that the cost allocation design element presented in Irish Water's *Non-Domestic Tariff Design Review and Enduring Proposals Paper* (CRU/18/115) and summarised in the CRU's Consultation Paper (CRU/18/114) is complex, with many differing elements needing to be considered. However, in order to ensure transparency and prevent the over simplification of Irish Water's cost allocation proposals, the CRU was of the view that it was important to set out Irish Water's proposals in detail. The CRU has considered respondents' comments and has endeavoured to present the costs allocation in a more clear and concise manner within the CRU's Proposed Decision Paper. See the CRU's Customer Impact Statement, Section 5, Section 8, Section 9 and Appendix 1 of the CRU's Proposed Decision Paper (CRU/19/042) for more details.

With respect to respondents' concern that Irish Water's cost allocation output leads to much of the burden of the increase being borne by the Commercial and Industrial non-domestic customer classes; Irish Water's allocation of costs to each of its customer classes does not favour or burden any class. Instead, a rule (cost driver), including adjustments to these cost drivers, applied to one customer class is applied to all customer classes in a consistent and transparent manner. The total costs to be recovered from each customer class is a direct result of the application of the cost allocation rules, which are designed to capture the costs to serve each class. The reason why a much higher percentage of connections in the larger customer classes (previously 'Commercial' and 'Industrial' customer classes) are seeing bill increases relative to the smallest non-domestic customer class (previously the 'Standard' customer class) is due to the choice of the costs to be recovered through the standing charge and volumetric charge for each customer class. This is explained and further discussed in Section 9.1.3 "*Distribution of Customer Bill Impacts Across Customer Classes*" within the CRU's Proposed Decision Paper (CRU/19/042).

5.4.2 Irish Water’s Considerations for Disaggregating Costs and Determining ‘Cost Drivers’

The CRU’s Consultation Paper (CRU/18/114) set out six questions related to Irish Water’s proposed disaggregation of costs and its determination of cost drivers. These questions are captured below.

CRU Questions

- Q43.** Do you agree with Irish Water’s assessment of the best practice approaches to the selection of cost drivers for each cost category?
- Q44.** Do you agree with Irish Water’s proposals regarding its selection of cost drivers? Please state your reasons why.
- Q45.** Do you agree with Irish Water’s proposed use of cost driver for each cost category (opex and capex categories)?
- Q46.** Are there other methods of cost allocation that are not considered in Irish Water’s submission documents? Please describe them and why they should be considered.
- Q47.** Do you agree with Irish Water’s proposed adjustments to its cost allocation drivers?
- Q48.** Do you agree with the proposal to update Irish Water’s Cost Allocation approach once more information is available?

Summary of Responses Received

Nine respondents commented on Irish Water’s proposals regarding its disaggregation of costs, cost driver determination and its proposed application of cost driver adjustments.

Cost Drivers

With respect to Irish Water’s proposed cost drivers, one respondent expressed concern that without sufficient data on the contribution of different users to peak flow demand, there may be an over-allocation to non-domestic users by using the volume cost driver alone.

Other respondents argued that the allocation of ‘Support Services’, ‘Group & Shared Services’ & ‘Non-Controllable costs’ should primarily be based on connection numbers rather than volume stating that these costs are primarily driven by the complexity of customer interactions, the complexity of service required and Irish Water’s own internal management systems.

One respondent disagreed with a CRU observation that a contribution to peak adjustment is less relevant for the allocation of wastewater treatment capital expenditure costs to different customer classes, stating that, in their view, storage is limited compared to system demand and that manufacturing businesses in Ireland are typically required to maintain dedicated storm water drains either as a planning condition or as an EPA licence condition.

Adjustments to Cost Drivers

Respondents also commented on Irish Water's proposed cost driver adjustments. Comments received argued that an adjustment for leakage should be introduced, stating that leakage across the network is not uniform and that larger consumers of water are generally connected to larger distribution pipe networks where a leak is easily identified and fixed. Additionally, respondents argued that a network location adjustment for capex costs should also be considered, stating that such an adjustment would be justifiable given that large connections are served by the upstream parts of the network. Two respondents argued that the level of the adjustments, proposed by Irish Water should be larger, providing a qualitative assessment highlighting the affect various customer classes have on system peak and their location on the network.

Other Considerations

Additional comments on Irish Water's proposals regarding its disaggregation of costs and cost driver determination included accounting for storm water run-off and combined sewer costs within Irish Water's cost allocation. In this regard, one respondent referenced the approaches and tariffs applied in the UK, specifically referencing an abated sewage rate where a customer can apply for a reduced rate if efforts had been made to eliminate on-site surface water run-off into the sewer.

Respondents also commented on the inclusion of a non-return to sewer adjustments. One respondent sought consideration of a modest (global) adjustment to the assumption that 100% of the water delivered to a non-domestic property is discharged into the sewer when setting the wastewater charges for all non-domestic customers. In respect of individual cases, where a non-domestic customer is of the view that the assumption that the volume of water supplied to a property is equal to the volume of wastewater discharged from the property is not appropriate, another respondent awaits further details on Irish Water's standardised process to apply for a 'water in ≠ water out' agreement.

Updating Irish Water's Cost Allocation Exercise

Finally, two respondents also agreed with the proposal to update Irish Water's cost allocation approach once more information and data is available with one respondent suggesting that the adjustments proposed by Irish Water, should remain in place throughout the forthcoming revenue control period, as it would take considerable work for Irish Water to obtain sufficient site-specific data to update the cost allocation methodology.

CRU Response:

Respondents submitted detailed comments regarding Irish Water's proposed disaggregation of costs and selection of cost drivers.

Cost Drivers

The CRU notes respondents' comments arguing in favour for 'Support Services', 'Group & Shared Services' & 'Non-Controllable' costs to be primarily allocated on the basis of connection numbers. The CRU assessed and considered the impact on standing charge

levels, the scope for customers to reduce their bills and the need to incentivise the conservation of water when coming to a view on the allocation of such costs. As explained within the CRU's Proposed Decision Paper (CRU/19/042), to retain Irish Water's proposed 50% consumption and 50% connections split, or use a proportional split, results in high standing charge levels for customers in the Commercial and Industrial classes. Given the adverse impact of such high standing charges levels on customers, notably reducing the scope for customers to be able to reduce their bills and lessening the incentive to conserve water, the CRU is of the view that a blended cost driver of 10% consumption and 90% connections split is more appropriate at this point in time. The details of the CRU's consideration and proposed decision is set out in Section 5.5.2 of the CRU's Proposed Decision Paper (CRU/19/042).

In respect of wastewater treatment capex, Irish Water proposed to replicate its proposed approach to allocating water resource and treatment capex to each customer class. That is, Irish Water proposed to adjust the volume cost driver used to allocate wastewater treatment capex for the Commercial and Industrial customer classes to account for Irish Water's estimate that these class's contribution to the wastewater system peak are 90% and 80% respectively of both the domestic and non-domestic 'Standard' customer classes' contribution.

However, as noted in the CRU's Consultation Paper (CRU/18/114) the wastewater system is different to the water system. The wastewater treatment capex costs may not be driven by the same factors. Unlike the water treatment capex costs which are generally driven by the need to ensure the water system peak demand can be met, there is an element of storage within the wastewater treatment system and therefore the capex costs may not be as strongly driven by meeting peak wastewater flows. Further, a portion of the Irish Water's wastewater system comprise combined sewers (sewers that collect both customer wastewater discharges and storm water flows). Thus, the treatment capex costs may be partially driven by storm water peak flows, and not solely driven by customer discharge flows.

Further, the CRU also could not find precedent to support Irish Water's approach of using a 'contribution to peak' adjustment. It is likely that wastewater treatment capex costs are driven by wastewater volumes and treating particular pollutants, such biological oxygen loads (BOD) loads and suspended solids loads. These cost drivers were used by Stone & Webster in their assessment of cross subsidies between the different customer groups served by Scottish Water. Linked to this, one respondent welcomed Irish Water's identified best practice approach to allocating wastewater treatment costs on the basis of relative share in BOD and sludge disposal element of wastewater charging should be allocated on the basis for relative share in suspended solids loads.

The CRU requested that Irish Water consider these factors and provide further evidence to support its proposal to adjust wastewater volume cost driver for 'contribution to peak' to allocate wastewater treatment capex costs is appropriate. Irish Water considered the CRU's points and agreed that its proposal may be not be appropriate and does not align with precedent elsewhere.

Adjustment to Cost Drivers

The CRU has considered all responses received and agrees with the introduction of a leakage adjustment to the allocation of resource and treatment related operational costs and also a network location adjustment for water capital costs. See Section 5.5.2 of the CRU's Proposed Decision Paper (CRU/19/042) for more details.

With respect to respondents arguing that the level of adjustments proposed by Irish Water should be larger, the CRU has opted to align the level of cost driver adjustments (network location, leakage and contribution to peak) to the adjustments used by consultants 'Stone & Webster' in their assessment of cross subsidies between the different customer groups served by Scottish Water (*"Analysis of whether there are significant cross subsidies between the different customer groups served by Scottish Water - A final report for the Scottish Executive¹⁸"*). See Section 5.5.2 of the CRU's Proposed Decision Paper (CRU/19/042) for more details.

The CRU is of the view that it is more appropriate to base adjustment levels on reported data, as a proxy, than use estimates based on no data at all.

Non-Return to Sewer Adjustment

Two respondents remarked on Irish Water's proposals not to apply a non-return to sewer adjustment. As stated in the CRU's Consultation Paper (CRU/18/114) and set out in the Proposed Decision Paper (CRU/19/042), the CRU is of the view that to apply a non-return to sewer allowance on a global scale (that is, to all wastewater connections), for the purposes of calculating a non-domestic wastewater charges may be precluded under legislation. However, the CRU has been engaging with Irish Water to establish a standardised process for customers making individual applications under Section 22(9) of the Water Services (No.2) Act 2013. Although the CRU has no legislative role in approving applications made under Section 22(9), it is good regulatory practice to establish a standardised process that will benefit customers in terms of transparency and equity. The CRU has requested that Irish Water provide further details on this process in the next phase of consultation on the Water Charges Plan (in Q4 2019).

Storm Water Drainage / Surface Water Cost Allocation

One respondent remarked on the need to take account of combined sewers within Irish Water's cost allocation proposals referencing the fact that any non-domestic customers who is issued with an Industrial Emissions Licence is required to maintain private storm drains onsite and are therefore unlikely to contribute to the demand for public drainage. Another

¹⁸ In 2005, Scottish Water provided water and sewerage services to around 2.3 million customers. This Report presents the findings of an investigation into whether the charges levied by Scottish Water on different customer groups for the services that it provides are broadly reflective of the costs associated with the provision of those services to the different groups. The assessment of cross subsidy presented in this report was developed in consultation with Scottish Water and its economic regulator, the Water Industry Commissioner for Scotland. It is based on an analysis of the allocation of Scottish Water's total costs in 2003-04 for its core water and sewerage services supplied to its household and non-household customers.

respondent cited circumstances in the UK, where non-domestic customers can apply for an abated sewerage tariff which only applies for the “conveying and treatment of foul sewage”.

The CRU recognises that in some cases non-domestic customers may be required to control their on-site discharge. However, as noted in the CRU’s Consultation Paper (CRU/18/114) and set out in the Proposed Decision Paper (CRU/19/042), while there is sufficient data to allow Irish Water to generate new tariffing proposals, it is important to recognise that there are some limitations in data available to Irish Water at this point in time. As such, there is insufficient data to generate separate surface water charges or account for combined sewers within its cost allocation exercise. Irish Water will continue to enhance its current asset management and accounting systems in identifying and recording cost information associated with a particular service provision and customer tariff grouping. This will improve the data available on all non-domestic connections over time. See Section 5.5 of the CRU’s Proposed Decision Paper for more details (CRU/19/042).

Updating Irish Water’s Cost Allocation Exercise

As Irish Water continues to gather more robust data regarding its assets and its non-domestic customers, consideration will be given to updating its cost allocation exercise. This is not envisaged to happen until the 3-year transition period has been completed. This is to safeguard bill stability over the period.

5.4.3 Irish Water’s proposals for using the Allowed Revenue cost structure ‘breakdown’ to allocate opex and capex costs to customer classes

The CRU’s Consultation Paper (CRU/18/114) set out two questions related to Irish Water’s proposals for using the allowed revenue ‘breakdown’ (operational expenditure, return of capital (‘depreciation’) and return on capital (‘rate of return/return on assets’) to allocate costs to customer classes. These questions are captured below.

CRU Questions

- Q49.** Do you agree with Irish Water’s proposal to use the current allowed revenue component breakdown for the period 2017 and 2018 within the cost allocation methodology to set the new non-domestic tariffs? Please state your reasons why.
- Q50.** Are there alternative methods in respect of reflecting Irish Water’s cost component breakdown that should be used in the cost allocation methodology that would be more appropriate? Please explain why.

Summary of Responses Received

Four respondents commented on Irish Water’s proposal to use the current allowed revenue component ‘breakdown’. One respondent sought an analysis to be undertaken to understand

the impact of using a longer-term view of Irish Water's revenue 'breakdown' (i.e. forward-looking view of opex and capex shares) and another respondent agreed with the observation that a forward-looking view of Irish Water's cost 'breakdown' should be considered and that such a breakdown should be in line with international comparators.

One respondent agreed with Irish Water's approach highlighting that taking a forward-looking view on Irish Water's allowed revenue could risk full cost recovery and that any forward view also risks being inaccurate.

CRU Response:

As suggested by one respondent, the CRU has examined the option to reflect a longer-term view of Irish Water's cost component breakdown and has identified a number of disadvantages. One relates to the risk of accurately estimating Irish Water's operational and capital expenditure cost component breakdown in the longer-term, especially given the nature of Irish Water's funding model. Further, to use a cost component breakdown that does not reflect the prevailing breakdown introduces a non-cost reflective element into tariff setting.

Given these drawbacks, the CRU is of the view that it would be more appropriate to use Irish Water's current cost component breakdown to weight the relative proportions of operational and capital costs to each customer class. This approach would also be a more transparent, cost reflective and simple.

See Section 5.5.3 of the CRU's Proposed Decision Paper for more details (CRU/19/042).

5.4.4 Allocation of Costs to the Standing and Volumetric Charges

The CRU's Consultation Paper (CRU/18/114) set out two questions related to the output of Irish Water's cost allocation approach. These questions are captured below.

CRU Questions

Q51. Do you agree with Irish Water's proposed allocations of costs to be recovered from the standing charge and volumetric charge for each proposed non-domestic customer class? Please state your reasons why.

Q52. Are there any changes you would make to Irish Water's proposed rules for recovering costs from the standing charge and volumetric charge elements of the non-domestic customer classes?

Summary of Responses Received

Seven respondents commented on Irish Water's proposed allocation of costs to be recovered from the standing and volumetric charges. One respondent noted that it is important that the standing charge only recovers meter maintenance costs and the billing of business customers while another respondent remarked that businesses of all sizes must be able to reduce their bills by implementing water usage reduction measures.

One respondent supported a large allocation of costs to be recovered from the standing charge element and also stated that a provision should be introduced for significantly large connections to agree a variation of the standing charge and volumetric charge split on a case-by-case basis. One respondent agreed with Irish Water's proposals, while another respondent sought clarity on how the standing charges are calculated.

A number of respondents highlighted their concern regarding the application of multiple standing charges for customers with multiple connections (especially for low volume users). This issue is discussed in more detail in Section 4.3.1 of this Response Paper.

CRU Response:

The CRU noted respondents' comments with regard to the allocation of costs to be recovered from the standing and volumetric charges for each customer class.

As set out within the CRU's Proposed Decision Paper, when deciding on the relative portions of revenue to be recovered via the standing and volumetric charges, consideration should be given to the implications for customers. That is, in terms of incentivising efficient use of the resource, short term revenue certainty and price stability. As such, the CRU agrees with respondent views that businesses of all sizes must be able to reduce their bills through water conservation measures. Recovering a large portion of the revenue from the standing charge (relative to that recovered via the volumetric charge) would lessen the incentive for non-domestic customers to conserve and use water efficiently. It also reduces the scope for non-domestic customers to reduce their bills. The composition of the standing and volumetric charges is set out in Section 5.5.5 of the CRU's Proposed Decision Paper (CRU/19/042).

As set out within Irish Water's *Non-Domestic Tariff Design Review and Enduring Proposals* (CRU/18/115), its allocation to the standing charge is intended to equate to the UK approach to recover fixed meter costs and the costs associated with servicing a customer's account such as meter reading, billing, collection and customer service costs.

One respondent suggested that a case-by-case variation of the standing charge should be considered. However, the CRU considers such an approach to establishing standing charges may introduce inequity between customers, as well as being non-transparent.

With respect to providing clarity on how standing charges are calculated, the following high-level steps are undertaken:

1. Irish Water's opex and capex costs are first allocated to each customer class as per the cost allocation rules, to arrive at a total amount of costs to be recovered from each customer class.
2. There are also rules to determine which of the opex and capex costs (allocated to a customer class) are to be recovered from the standing charge and the volumetric charge of that customer class, to arrive a total amount of costs to be recovered from the standing charge (and volumetric charge) for each class.
3. The total amount of costs to be recovered from the standing charge for each class is then divided by the total number of connections within that class, to arrive at the level of the standing charge for each class (€/year).

Please see section 5.5.5 of the CRU's Proposed Decision Paper for more details (CRU/19/042).

5.5 Irish Water's Transitional Arrangements Proposals

A core principle of the Framework is that customer bill volatility is kept to a minimum. Where the application of a new non-domestic tariff results in bill increases, consideration must be given to putting in place arrangements that gradually transition customers from their existing tariffing arrangements to the new enduring tariff arrangements over a period of time. This is a critical element of the Framework and as such the CRU required that Irish Water develop and propose arrangements to transition customers to their new enduring tariffs.

5.5.1 Transition Approaches & Offering a Cap on Annual Bill Increases

The CRU's Consultation Paper (CRU/18/114) set out six questions related Irish Water's proposed transition approach and offering a cap on annual bill increases. These questions are captured below.

CRU Questions

- Q53.** Do you agree with Irish Water's proposal to apply a combination of transition approach 1 and approach 5? Please state your reasons why.
- Q54.** Do you agree with Irish Water's proposed monetary threshold of €250 to determine whether a customer qualifies for a transition tariff? Please state your reasons why.
- Q55.** Is there an alternative annual threshold level or method that would be more appropriate? Should the threshold make reference to an annual bill percentage increase? Should the threshold be a combination of both?

Q56. Is there an alternative approach to Irish Water's proposed transition method that should be considered that would better achieve the 6 tariff principles? If so, please explain how.

Q57. Do you agree with Irish Water's proposal to offer non-domestic customers who qualify for a transition the option of availing of a 10% cap on the maximum annual bill increase a customer would face during each year of the transition period? Is this threshold level appropriate? Please state your reasons why.

Q58. Should Irish Water instead apply this cap *automatically* to customers' bills, and provide customers with the option of 'opting out' of receiving the cap?

Summary of Responses Received

Fourteen respondents commented on Irish Water's proposed transition approach and proposed cap on annual bill increases.

The majority of respondents agreed with Irish Water's proposed transition approach, however eight respondents highlighted that Irish Water's proposed 10% cap should be automatically applied and should not require non-domestic customers to opt-in. One respondent suggested that the 10% cap should be revised to 20% to align with the increased allocation to non-domestic customers and another respondent emphasised that the costs imposed by the implementation of the proposed transition arrangements should not result in cross-subsidisation.

One respondent suggested that connections seeing an increase of less than €250 should be able to avail of a transition if the percentage bill increase is high (e.g. greater than 20%), while another respondent sought assurance that no cross subsidisation between non-domestic customer classes would occur during transition. This point is addressed in Section 3.16 of general comments section in this paper.

CRU Response:

The CRU notes respondents' points and agrees that Irish Water's transitional arrangements are an important element of the Framework. A core principle of the Framework is that customer bill volatility is kept to a minimum. Where the application of a new non-domestic tariff results in bill increases, consideration must be given to putting in place arrangements that gradually transition customers from their existing tariffing arrangements to the new enduring tariff arrangements over a period of time.

With respect to respondents' views that the 10% cap should be applied automatically; the CRU asked Irish Water to reconsider its proposed transitional arrangements to accommodate applying a 10% cap automatically to customers' bills, as opposed to a customer having to opt-in for the cap.

Irish Water considered this option and explained that implementing a 10% cap to a customer's annual bill involves generating transitional tariffs for an individual connection (i.e., a standing

charge and volumetric charge for each year of the transition period that are unique to that connection) so that when the transitional tariffs are applied to the customer's annual consumption (which is assumed to be constant throughout the transition period) the annual bill increase faced by that customer is capped at 10% each year. However, Irish Water point out that automatically applying a cap would result in Irish Water generating unique 'capped transitional tariffs' to approx. 28,000 connections. Irish Water argue that applying approx. 28,000 unique 'capped transitional tariffs' significantly increases the complexity of implementation, as a transitional tariff needs to be calculated for each individual connection. Further, incorporating unique 'capped transitional tariffs' within the billing system is intricate and requires manual input. It also increases account management and communication requirements with customers. These additional costs would ultimately be borne by customers.

As such, Irish Water has revised its proposed transition approach as follows:

- Connections facing an expected annual bill increase of between €250 and €750 (based on their previous year's consumption) will be transitioned over three years; and
- Connections facing an expected annual bill increase of more than €750 (based on their previous year's consumption) will be transitioned over three years. A 10% annual bill increase cap will be applied automatically to a customer's bill (where required) for each year of the transition. These connections may opt-out of receiving a 10% cap.

The CRU's proposed decision to approve Irish Waters' revised approach. Further detail is set out in Section 8.2.2 of the CRU's Proposed Decision Paper (CRU/19/042).

The CRU notes respondents' comments seeking the introduction of transitional arrangements for connections seeing an increase of less than €250. The CRU recognises that in a number of instances, an annual bill increase of less than €250 may represent a percentage increase greater than 20%. To alleviate any concern for customers who do not qualify for a transition, Irish Water is required to assist customers in making a payment plan for customers who are experiencing financial difficulties in paying their bills. This is set out in Section 7.8 of the CRU's Non-Domestic Customer Handbook¹⁹. Irish Water must take account of an individual customer's ability to pay when agreeing any repayment arrangement, by credit or other method and confirm with account holders that arrangements are manageable.

5.5.2 Transition Period

The CRU's Consultation Paper (CRU/18/114) set out two questions related Irish Water's proposed transition period. These questions are captured below.

¹⁹ Irish Water's Non-Domestic Customer Handbook: <https://www.cru.ie/wp-content/uploads/2018/03/CRU18041-Irish-Water-Non-Domestic-Customer-Handbook-27-March-2018.pdf>

CRU Questions

Q59. Do you agree with Irish Water’s proposed 3 year transition period? Please state your reason why.

Q60. Are there alternative transition periods that should be considered that would better achieve the tariff principles? Please state your reasons why.

Summary of Responses Received

Eight respondents commented on Irish Water’s proposed 3-year transition period. Six respondents agreed with Irish Water’s proposals highlighting that such a transition period is enough time to transition to the new tariffing regime and that a 3-year transition period for connections with substantial bill increases is welcome. One respondent requested flexibility on a case-by-case basis for farm businesses that face a very large increase in charges.

Three respondents suggested extending the transition period to 5 years to allow for non-domestic customers to adjust and budget for any change.

CRU Response:

The CRU agrees with respondents’ comments in support of a 3-year transition.

From the CRU’s research into transition approaches used in other jurisdictions, there is precedent of 3 years as the time period used to transition customers from their old tariff to their new tariff²⁰. The advantage of choosing a longer transition period is that it further mitigates the annual bill increases that customers (who qualify for a transition) would face each year. However, it delays the point in time when all customers will reach their cost reflective enduring tariffs. Under Irish Water’s proposals, many customers will be charged the new enduring tariff rates immediately (in year 1), where under a 5-year transition period, some customers would not be charged their full enduring tariff rates until year 5. This may be considered to be inequitable. Also, while customers are transitioning to their enduring tariff rates, ideally adjustments to the transition tariff levels (for example to capture changes in the costs to provide a service) would not be made until the transition period is complete, to provide price certainty to customers. However, it is likely that Irish Water’s costs to provide water and wastewater services to non-domestic customer will change over a 5-year period. This creates the need to adjust the level of the transition tariffs applied to customers during the transition period, which would be undesirable. For these reasons, the CRU is of the view that a 3-year transition period is appropriate.

²⁰ Please see Section 12.2 of Appendix 2 of this paper for further detail.

In relation to respondents' points regarding providing time for customers to plan and prepare for a change in tariffs, please note that a final decision on the new enduring tariffs is planned to be published at the end of Q2 2019, however, the new tariffs will not be implemented (and applied to customers' bills) until the start of Q2 2020, providing customers with approximately 9 months to plan and budget for their new tariff. Further, to provide price certainty and bill stability to customers, the enduring tariff levels will remain unchanged throughout the 3-year transition period.

It is also important to note that the Framework includes protection measures for customers facing bill increases, in respect of the application of transitional arrangements and a 10% cap on the maximum annual bill increase year on year for connections facing a bill increase of €750 or greater. This gives additional protections to customers who may be adversely affected by the introduction of Irish Water's Non-Domestic Tariff Framework. With respect to customers who do not qualify for a transition, Irish Water is required to assist customers in making a payment plan, to assist customers who are experiencing financial difficulties in paying their bills. This is set out in Section 7.8 of the CRU's Non-Domestic Customer Handbook²¹. Irish Water must take account of an individual customer's ability to pay when agreeing any repayment arrangement, by credit or other method and confirm with account holders that arrangements are manageable.

See Section 8.2 of the CRU's Proposed Decision Paper for more details (CRU/19/042).

5.5.3 Method of Transitioning Customers – Calculating Transition Tariffs

The CRU's Consultation Paper (CRU/18/114) set out three questions related Irish Water's proposed method of transitioning customers. These questions are captured below.

CRU Questions

- Q61.** Do you agree with Irish Water's proposed approach to setting annual transition tariffs by calculating an individual monetary increase (Option 2B) for each qualifying customer? Please state your reason why.
- Q62.** Are there alternative methods to calculating the transition tariffs that would better achieve the tariff principles?
- Q63.** Should both bill increases and bill decreases be transitioned over time, or should customers see bill decreases immediately?

²¹ Irish Water's Non-Domestic Customer Handbook: <https://www.cru.ie/wp-content/uploads/2018/03/CRU18041-Irish-Water-Non-Domestic-Customer-Handbook-27-March-2018.pdf>

Summary of Responses Received

One respondent commented on Irish Water’s proposed approach to setting annual transition tariffs by calculating an individual monetary increase for each qualifying connection, stating that Irish Water’s approach is the most straightforward and simple for customers to understand. The respondent also states that bill decreases should be implemented immediately.

CRU Response:

The CRU agrees with the respondent’s comment regarding Irish Water’s proposed approach to setting annual transition tariffs and that bill decreases should be implemented immediately.

The individual monetary increases approach is a simple method of calculating transition tariffs and bills for customers and will be easy for customers to understand. This approach also captures changes in customer consumption and discharge volumes which is an equitable approach as it ensures customers only pay for what they consumer or discharge.

To clarify, connections that face a bill decrease as a result of the application of the new enduring tariffs will be applied these tariffs on the date of implementation of the new Framework, so customers can see the benefit of the bill decrease straight away.

See Section 8.2.4 of the CRU’s Proposed Decision Paper for more details (CRU/19/042).

5.5.4 Grace Period

The CRU’s Consultation Paper (CRU/18/114) set out two questions related to Irish Water’s proposed grace period. These questions are captured below.

CRU Questions

Q64. Should Irish Water offer a grace period? If so, when should it start? How long should it last? Is 12 months too long or too short? Please state your reasons why.

Q65. Should a grace period apply to all non-domestic customers, that is, customers facing bill increases as well as bill decreases?

Summary of Responses Received

Six respondents commented on Irish Water’s proposals to offer a grace period of 12 months. All six respondents agreed that a grace period was needed to allow non-domestic customers time to fully understand the impact Irish Water’s Framework has on their future bills. Two

respondents also commented on the need give customers facing bill increases timely information well in advance.

One respondent suggested extending the grace period to 18 months while another respondent highlighted that a grace period should give sufficient time to allow business time for financial planning. One respondent agreed with the introduction of a short grace period for customers facing substantial tariff increases.

CRU Response:

The CRU notes respondents' comments and is also of the view that providing a grace period would be beneficial to customers and would allow time to budget for new tariff charges and implement measures to mitigate future bill increases.

As stated in the CRU's Proposed Decision Paper, it is planned that the CRU will issue a final decision on the non-domestic tariff rates at the end of Q2 2019. At that point customers will know their new tariff rates. However, the CRU's proposed decision is that the new rates will not be implemented and applied to customers' bills until the start of Q2 2020. This will provide customers with a grace period of approximately 9 months. The CRU recognises the importance of striking a balance between allowing for a suitable grace period while also not further delaying the bill decreases and the expected benefits of introducing a harmonised set of non-domestic charging arrangements.

See Section 8.2.5 of the CRU's Proposed Decision Paper for more details (CRU/19/042).

5.5.5 Review of enduring non-domestic tariff levels

The CRU's Consultation Paper (CRU/18/114) set out three questions related reviewing Irish Water's enduring non-domestic tariff levels. These questions are captured below.

CRU Questions

Q66. Do you agree with Irish Water's proposal to set the enduring tariff levels each year of the transition period to reflect estimates of inflation and customer number growth rates, resulting in slightly different tariff levels for each of the transition? Please state your reasons why. Should there be an alternative approach taken to setting the tariff levels over this period?

Q67. Do you agree with Irish Water's proposal to not adjust the enduring tariff levels to reflect the CRU allowed revenue decision for the period 2020 to 2024, except in the case where "...inflationary pressures (above projected inflation) in future result in the likelihood of significant differences emerging."? Please state your reasons why

Q68. Do you agree with a possible alternative approach to adjusting the tariff levels discussed by the CRU? Please state your reasons why.

Summary of Responses Received

Six respondents commented on Irish Water’s proposals regarding the review of non-domestic tariff levels. These relate to setting the enduring tariff levels each year of the transition period that reflect inflation and the review of enduring non-domestic tariff levels after the transition period.

Respondents had differing views on Irish Water’s proposals. One respondent disagreed with Irish Water’s proposals to set tariffs levels each year of the transition highlighting that such an approach would be too complex. One respondent agreed with the CRU’s observation to hold the enduring rates steady over the transition period while two respondents had concerns over not adjusting the tariff rates to reflect inflation given the potential for unforeseen circumstances and the potential for Irish Water to lose income. Two respondents also raised concern over Irish Water’s choice of inflation index, stating that HICP may not be appropriate for a utility company such as Irish Water.

With respect to adjusting Irish Water’s enduring tariff levels to reflect the CRU’s allowed revenue decision for the period 2020 to 2024, one respondent agreed with the alternative approach to adjusting tariff levels discussed by the CRU in Section 8.2.6 of the CRU’s Consultation on Irish Water’s Proposals for a new Non-Domestic Tariff Framework (CRU/18/114).

CRU Response:

The CRU notes respondents’ concerns with respect to the review of enduring non-domestic tariff levels.

Tariff Levels During 3-Year Transition Period

The CRU is of the view that tariff levels should ideally be set (for a particular period) to recover a utility’s allowed revenue for the same period. However, this is not possible in this situation. Given that the enduring tariffs will be implemented in Q2 2020, for a 3-year period, the CRU is of the view that it is prudent to set the tariff levels to reflect estimates of inflation and growth in connection numbers over future years. This is what would be done if setting tariffs on an annual basis, which is common regulatory practice. It also may lessen the risk of the tariff levels becoming out of line with the utility’s allowed revenue to provide water services to its customers.

Irish Water’s proposals would result in a slightly different standing charge, volumetric rate and unmetered tariff level being set for each year of the transition period. However, as suggested by respondents, it would be easier for customers if their enduring tariff (standing charge, volumetric charge and unmetered charge) levels remained unchanged for the duration of the transition period. The CRU has therefore asked Irish Water to generate enduring tariff levels that are stable throughout the 3-year transition period. These stable enduring tariff rates will

also reflect expected growth in connection numbers and inflation. The CRU's proposed decision is that the enduring tariff levels are to remain unchanged throughout the 3-year transition period.

Tariff Levels After 3-Year Transition Period

The CRU is of the view that tariff levels that remain unchanged over the transition period would provide certainty to customers, which would be particularly important to those customers who are transitioning to their enduring tariff levels. However, after the transition period, consideration will need to be given to adjusting the tariff levels so as to ensure they do not diverge (upward or downward) significantly from the revenues allowed to provide water services to customers.

The CRU's proposed decision is that the enduring tariff levels are to remain unchanged throughout the 3-year transition period.

The CRU's proposed decision to adjust non-domestic tariff levels over future years is as follows:

- Set the enduring tariffs levels for 3 years (Q2 2020 – Q2 2023). Do not adjust tariff levels over this period.
- Each year during the transition period, Irish Water to assess if there is a material difference between RC3 allowed revenue (2020-2024) & the 2019 allowed revenue (on which enduring tariffs are set) and also updated connection numbers and volume data, and:
 - If there is material increase required, increase the tariff levels at the completion of the 3-year transition period;
 - If there is an immaterial increase required, don't change tariff levels (but redo assessment each year to ensure the increase required does not grow); and
 - If a decrease is required, decrease the tariff levels at the completion of the 3-year transition period.

The CRU's proposed decision is to use the above approach to adjust the tariff levels over the period Q2 2020 to the end of 2024, which strikes a balance between providing certainty to customers while also reducing the risk of the tariff levels diverging from the prevailing allowable revenues.

Inflation Index

With respect to the choice of inflation measure and the concern raised by respondents, the CRU is of the view that HICP is an appropriate measure of inflation for Irish Water and is also consistent with the measure used in gas and electricity revenue controls. It is also consistent with the inflation index used in Irish Water's revenue control determinations. Accounting for inflation (of the 3-year transition period) will also mitigate the risk of a step up in charges at the end of Revenue Control 3.

See Section 8.2.6 of the CRU's Proposed Decision Paper for more details (CRU/19/042).

5.6 Indicative impacts of Irish Water’s proposals to customers’ bills over the transition period

The CRU’s Consultation Paper (CRU/18/114) set out two questions related Irish Water’s presentation of the indicative impact of proposals on customers’ bills over the transition period. These questions are captured below.

CRU Questions

Q69. Is Irish Water’s presentation of indicative bill impacts clear to customers?

Q70. What measures should Irish Water take to better demonstrate the indicative bill change for customers in the next paper (i.e., the proposed decision on the Tariff Framework and non-domestic tariff rates)?

Summary of Responses Received

In general, respondents requested a broader impact analysis to be presented by Irish Water. Respondents proposed an impact analysis broken down by customer class, by sector, by multiple usage volumes and one respondent requested an impact analysis specifically for charities and voluntary organisations. Two respondents commented on Irish Water’s indicative tariff rates and how these rates should be presented upfront in the paper and that once the final rates have been decided on, an open consultation should take place. Two respondents remarked on Irish Water’s online calculator, stating that online calculator has received mixed reviews and in some cases caused confusion.

One respondent commented on the splitting of connection charges, non-domestic water and wastewater tariffs and non-domestic trade effluent tariffs, which has resulted in a lack of transparency for non-domestic customers trying to calculate and forecast their bills for ongoing projects.

With respect to Irish Water’s international price comparison, respondents welcomed this analysis with two respondents suggesting Irish Water broaden their review of international comparators to include other European water models and other jurisdictions that compete with Ireland for manufacturing investment.

CRU Response:

The CRU acknowledges respondents’ request that a more granular impact analysis is presented by Irish Water. The CRU has passed on respondents’ comments to Irish Water and requested that it consider these comments when demonstrating how customers may be affected by the introduction of its Non-Domestic Tariff Framework. Please see Irish Water’s

Customer Information Paper (CRU/19/045), which is published alongside the CRU's Proposed Decision Paper (CRU/19/042). The CRU will also engage with Irish Water to understand how the communication of the new tariffs to customers can be enhanced through Irish Water's Communication Plan, online Business Tariff Calculator and Key Account Managers to help customers understand how and when they will be impacted by the Framework.

With regard to respondents seeking that the non-domestic tariffs are presented upfront in the paper and greater clarity is provided to the reader, the CRU acknowledges that there was a large volume of complex proposals presented in the consultation papers, with many differing elements needing to be considered. However, in order to ensure transparency and prevent the over simplification of Irish Water's cost allocation proposals, the CRU was of the view that it was important to set out Irish Water's proposals in detail. However, the CRU has considered respondents' comments and has endeavoured to present the tariff rates and proposals in a more clear and concise manner within the CRU's Proposed Decision Paper.

For example, the CRU has taken account of respondents' comments and enhanced several aspects of the paper to improve clarity. These are:

- Presenting the tariff rates upfront within the CRU's Proposed Decision Paper;
- The enhancement of the CRU's Customer Impact Statement to help customers understand which tariff will apply to them and also how their bills may change in the future (see Section 1 of the CRU's Proposed Decision Paper); and
- The inclusion of summary tables to identify which aspects of Irish Water's proposals have changed since the consultation and how these impact customers at a high-level. (see Appendix 1 of the CRU's Proposed Decision Paper).

The CRU has also included a section in the CRU's Proposed Decision Paper which provides an overview of the aggregate bill impacts of the new non-domestic tariff rates across the non-domestic sector, the distribution of customer bill impacts by customer class and a narrative around the factors that may influence how a customer's bill is impacted.

Irish Water has also included further information on the bill impacts across customers, including worked examples of how customers' bills may change over the transition period, in its *Customer Information Paper* (CRU/19/045). Irish Water has also updated and enhanced its online business tariff calculator which will assist understand how they may be individually impacted by the Framework.

With respect to respondents requesting a broader review of international comparators and to include other European water models and other jurisdictions that compete with Ireland for manufacturing investment; the CRU passed on these responses to Irish Water for its consideration.

The CRU notes one respondent's comment regarding understanding the cumulative impact of connection charges, non-domestic tariffs and trade effluent tariffs on their ongoing projects. Irish Water's new Connection Charging Policy was published in December 2018, which sets out the connection charges that will apply to new connections. The publication of this Proposed Decision paper will inform customers of the CRU's proposed decision on the non-

domestic water and wastewater tariffs. The CRU intends to publish a final decision on these tariffs at the end of Q2 2019. The CRU acknowledges the exclusion of new trade effluent charging arrangements from the Non-Domestic Tariff Framework. However, as Irish Water currently has insufficient cost evidence to propose an enduring policy for charging trade effluent discharges, it is unable to set out its proposals at this time. Irish Water is to maintain the existing Local Authority trade effluent charging arrangements for an interim period as Irish Water has insufficient cost evidence at this time to propose an enduring policy for charging trade effluent discharges.

However, an enduring Trade Effluent Charging policy is planned to be introduced in 2020, which will be subject to a full public consultation prior to implementation. These publications will give clarity to customers and allow them to calculate and forecast their bills for ongoing projects.

In relation to one respondent's suggestion that an open consultation should take place once the final rates have been determined. The CRU Proposed Decision Paper, which is published alongside this Response Paper, sets out the CRU's proposed decision on the Framework and corresponding tariff rates and will be open for comment for a 4-week consultation period. This will allow customers and stakeholders to consider the CRU's proposed decision and understand the corresponding impact to their bills. It also gives customers, stakeholders and interested parties another opportunity to provide input prior to the CRU reaching a final decision on the Framework.

5.7 Communicating tariff changes to customers

Clearly communicating the changes to customer's tariffs and bills is very important. Providing information and resources to customers will help customers understand how they will be affected by the new tariffing regime throughout the transition period. Irish Water proposed to communicate directly with each non-domestic customer to explain the changes to their existing non-domestic tariff over the transition period. The CRU's Consultation Paper (CRU/18/114) set out two questions related to communicating tariff changes to customers. These questions are captured below.

CRU Questions

Q71. Would customers benefit from further information or presented in a different way?

Q72. How can Irish Water's communication with customers be enhanced to help understand the changes to their bills?

Summary of Responses Received

Respondents made a number of suggestions as to how Irish Water should communicate tariff changes to customers. Recommendations included setting out by letter to each customer, what the new tariffs will be and how customers will be impacted. Respondents also remarked on the need to establish a comprehensive communication plan with one respondent suggesting that a Key Account Manager should engage proactively with customers who are expected to see large annual bill increases, to discuss the increase and any potential mitigation measures. Linked to this were responses suggesting the need for Irish Water to encourage efficient water use and water stewardship while communicating to non-domestic customers. One respondent queried whether Irish Water has specific plans to include a streamlined system for larger multisite organisations and to provide single unified access to multisite monitoring and billing. Respondents also recommended the use of worked examples to demonstrate to non-domestic customers how their bills would be calculated and how they would be impacted by the new tariffs.

One respondent highlighted that the huge amount of information presented and made available was appreciated by organisations. Two respondents also expressed a willingness to contribute and aid in the communication of Irish Water's Non-Domestic Tariff Framework via their business forum.

CRU Response:

The CRU notes respondents' comments regarding Irish Water's communication proposals. As highlighted by respondents, communicating expected tariff and bill changes to customers will be very important to affected non-domestic customers. With this in mind, the CRU requested Irish Water to set out its communication approach within its *Customer Information Paper*. Please see Irish Water's paper which is published alongside the CRU's Proposed Decision Paper (CRU/19/042).

The CRU will continue to engage with Irish Water to understand how these suggestions can be accommodated by Irish Water when engaging with its customers and how communicating the tariff changes can be enhanced through Irish Water's Communication Plan, online Business Tariff Calculator and Key Account Managers to help customers understand how and when they will be impacted by the Framework.

The CRU also welcomes respondents' suggestions to use business forums as another means of communicating the tariff changes to customers. In this regard, the CRU will be holding its CRU Non-Domestic Water User Group meeting during the 4-week consultation period, will engage with An Fóram Uisce, and will continue to present and engage with other business forum as requested.

5.8 Measures to mitigate increases to customers' bills

In the CRU Consultation Paper (CRU/18/114), the CRU sought views from the public on what measures should be taken by Irish Water to help customers mitigate bill increases. The new Non-Domestic Tariff Framework represents a significant change to the existing tariffing regime, and for those customers facing bill increases through the application of the transition tariffs over the transition period, the CRU wishes to ensure measures are taken by Irish Water to help customers mitigate future bill increases. The CRU's Consultation Paper (CRU/18/114) set out one question related to measures to mitigate increases to customers' bills. This question is captured below.

CRU Question

Q73. What measures should be taken by Irish Water to help customers mitigate bill increases?

Summary of Responses Received

Respondents' primarily commented on how Irish Water should encourage the efficient use of water and water stewardship. One respondent suggested that Irish Water publish recommendations specific to each class in order to aid in the mitigation of bill increases while another respondent recommended that Irish Water take a collaborative approach to helping non-domestic customers to mitigate bill increases, while another respondent commented that water efficiency standards and conservation activities should be encouraged with the inclusion of financial incentives.

CRU Response:

Section 4.3 of Irish Water's *Customer Information Paper* (CRU/19/045) states that "to help customers reduce their usage and bills, Irish Water has developed a range of water conservation resources which are available on its website. These include tips to reduce water usage and guidance on the identification and prevention of leaks."

The CRU also welcomes Irish Water's recent announcement to develop a water stewardship and conservation pilot training programme in 2019. The programme aims to support Irish businesses as they seek to improve their water stewardship practices and impacts. Further details can be found on Irish Water's [website](#).

Noting respondents' comments, the CRU will further engage with Irish Water to understand what additional measures can be implemented by Irish Water to help customers mitigate future bill increases.