SUBMISSION TO THE COMMISSION FOR REGULATION OF UTILITIES ON
IRISH WATER REVENUE CONTROL 3 (2020 TO 2024)

10th SEPTEMBER 2019
Introduction to An Fóram Uisce

An Fóram Uisce (the Water Forum) was established in June 2018 in accordance with the provisions of Part 5 of the Water Services Act 2017. An Fóram is the only statutory body representative of all stakeholders with an interest in the quality of Ireland’s water bodies. An Fóram consists of 26 members including representatives from a wide range of organisations with direct connections to issues relating to water quality and also public water consumers. Approximately 50 different organisations were involved in the nomination of members.

An Fóram’s role in relation to public water services.

An Fóram notes its role as specified in the Water Services Act 2017 as same pertains to:

- Advising the Minister for Housing, Planning and Local Government in relation to Government water policy, having regard to the interests of the customers of Irish Water;
- To make recommendations to Irish Water in relation to its functions and;
- To advise and prove observations to the CRU in relation to the performance by Irish Water of its functions

Since its establishment, An Fóram has engaged with Irish Water and the CRU on many occasions in relation to various issues relating to water services. As stated on those occasions, An Fóram’s main concern in relation to the provision of drinking water is that the citizens and businesses of Ireland should have access to safe, potable drinking water supplies and in relation to wastewater, that all services are provided and maintained in a manner that safeguards public health and environmental wellbeing. The cost of access to both services, and also their on-going service provision, should be based on an economically reasonable, fair and transparent basis.

An Fóram welcomes and supports the CRU in its role as an independent water regulator with responsibility for a wide range of economic, customer protection and safety responsibilities and for protecting the public interest in Water by ensuring safe, secure and sustainable water supplies at a reasonable cost.

An Fóram received a briefing from the CRU on the proposed Revenue Control at a special meeting held on the 29th August 2019. At that meeting, An Fóram noted the various elements of the CRU’s proposals in relation to its approach, methodology and its specific proposals in terms of approvals for Opex and Capex costs for the period of the Revenue
Control and undertook to provide a response to the CRU outlining its overarching considerations and concerns.

**General observations in relation to the importance of the Revenue Control and the consultation process**

The Revenue Control is of very significant importance to Ireland in terms of the delivery of quality water and wastewater services, consistent with the requirements set out in a range of national plans including:

- Project Ireland 2040 – the National Planning Framework;
- National Development Plan 2018 – 2027;
- The Water Service Policy Statement 2018 and;
- River Basin Management Plan for Ireland 2018 -2021

The Revenue Control provides for the implementation by Irish Water of commitments provided for in those plans and incorporated into Irish Water’s Water Services Strategic Plan and the Strategic Funding Plan. It involves requested operational and capital expenditure by Irish Water of circa €8,976bn over the period 2020 – 2024.

An Fóram notes that the process used by the CRU in coming to its conclusions is complex, involving layers of information, plans and policies and relating to detailed economic analysis which have been the subject of attention by Irish Water over a number of years and by the CRU since November 2018.

An Fóram wishes to express its serious concerns with the current consultation process. Specifically, it has only had an opportunity to be briefed by the CRU in relation to the Review, rather than facilitated with a comprehensive consultation opportunity. Having regard to this and the tight timeframe allowed for in the consultation process, An Fóram is not in a position as it considers it should be, and indeed as provided by statute, to give a detailed or comprehensive response to the economic issues raised in the document.

Accordingly, An Fóram will be issuing a request to both Irish Water and the CRU to put in place arrangements for appropriate, timely and formal engagements in relation to work programmes and funding arrangements, implementation oversight and outcome assessments as part of an on-going and iterative process with both organisations. Such arrangements will provide clarity to all in terms of how An Fóram engages in relation to important issues of relevance to its statutory role.

**Specific observations in relation to the Revenue Control**

There are a number of high level observations which An Fóram would like to make:
1. Methodology

The CRU advises that, for the purposes of this Revenue Control, it is relying upon the normal regulatory process it follows in its role as economic regulator of the electricity and gas networks in Ireland. However, it is widely acknowledged that the business model for Irish Water is significantly different in many respects to that of the other utilities. Accordingly, An Fóram is concerned with the validity of this approach and would request further clarification in relation to same.

2. Provision of unit cost analysis

An Fóram understands that the unit cost analysis for the provision of potable water is not currently available, at least not in a clear and readily available manner. The absence of such information makes it most difficult to assess the cost effectiveness of water production in Ireland when compared with other service providers internationally and this makes it difficult to assess the operational costs from a value for money perspective. Further, it will make it difficult to identify improvements or dis-improvements in terms of the cost of water production into the future. An Fóram stresses the importance of such an analytical approach as a key building block for assessing efficiency between different jurisdictions and over different time frames. Indeed it considers that the absence of an agreed metric of this nature can lead to a conflation of concepts such as cost control and efficiency challenge with potentially serious consequences for investment decisions, ultimate service delivery and other outcomes such as improvements in ground water quality.

3. Expenditure control

The document refers to the need to control expenditure and the CRU has recommended a reduction in both CAPEX and OPEX allowances, whilst still expecting the outputs and outcomes as set out in the proposal. In the overall context of expenditure, the reductions are in the order of €439m, which represents a reduction of less than 5%. Therefore, any analysis or commentary in relation to the review is, in effect, confined to that portion of the overall spend. An Fóram is concerned that provision is made for instances where additional costs relate to additional activity as in such instances, the increase in costs does not necessarily mean a less efficient outcome. Indeed, there is a concern that in disallowing such costs there may be a perverse impact on overall efficiency.

It is noted that the CRU is relying upon comparators in the UK water services sector in relation to operating costs – these comparators are established for a significantly longer time than Irish Water and as such are at a much more advanced stage in their development path. Further, there are identified legacy issues as a consequence of the Irish Water’s establishment which are still being resolved and will require significant investment including the poor condition of many of our water services assets and a need for significant
investment in a modernisation programme. In addition, Irish Water has legal responsibilities specified in European and National legislation and regulation in the context of water quality and environmental protection. An Fóram is concerned that due regard is being had to, and allowance made for, these business and legal challenges. A related issue which was discussed at our briefing session relates to the ‘growth’ or ‘delta’ Opex that is being sought by Irish Water. It is important that this issue be clarified in order to reach a satisfactory and clear solution.


An Fóram considers that this is a most important element of the Revenue Control and supports the high level objectives set out in the document. In terms of reporting requirements, An Fóram emphasises the need for timely reporting so that any slippages or non-performance can be ascertained at the earliest possible time, to facilitate correction. As stated, An Fóram will seek to agree a modality of ongoing engagement with Irish Water and the CRU through this revenue control period.

5. Incentives

An Fóram notes the introduction of an additional incentive in relation to leakage reduction and welcomes same. As per our earlier comment, the timely monitoring of this indicator is extremely important and full clarification in relation to what is considered to be leakage is important. Comparative analysis with European norms would also be of benefit in terms of assessing progress and the level of ambition.

Conclusion

An Fóram would like to thank the CRU for the briefing provided at its meeting and looks forward to progressing with the CRU and Irish Water in terms of an iterative and comprehensive engagement process which will better enable it to provide advices in accordance with its statutory remit.

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