



Our Ref: MM/LS

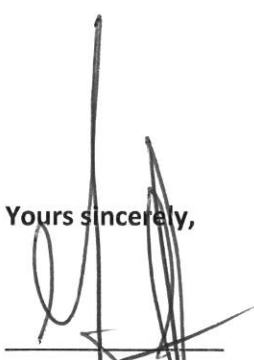
10th September 2019

Re: Submission to Commission for Regulation of Utilities on CRU/19/091 Irish Water Revenue Control - Revenue Control 3 (2020-2024)

To whom it may concern,

I attach a submission on CRU/19/091 Irish Water Revenue Control - Revenue Control 3 (2020-2024) from Kerry County Council in accordance with the published public consultation process .

Yours sincerely,



Ms Moira Murrell
Chief Executive
Kerry County Council

CRU/19/091 Irish Water Revenue Control - Revenue Control 3 (2020-2024)

Closing Date 11th September 2019

Submission from Kerry County Council

The Local Authorities carry out many of the Water Services roles on behalf of Irish Water under the existing system of Service Level Agreements. The proposals set out in the report will therefore have a direct impact on the level of service that each Authority will be in a position to provide with the proposed reduced funding over the 5 year revenue control period. SLA costs account for circa 75% of total Irish Water controllable opex. Irish Water must therefore be provided with sufficient opex to meet SLA and other operating costs into 2020 and beyond.

The proposals as outlined regarding the Capex costs may also have an impact on the Capital staffing element of the service level agreement which Kerry County Council has in place with Irish Water. In the absence of the appropriate capital funding being made available to Irish Water there is an inherent risk for the local Authority in assuming any additional cost due to a shortage of allowable capital funding and thus impacting on the ability of Irish Water to fund the staffing of the Capital Office as established.

GROWTH

Growth had been allowed for in the previous two revenue control periods and it is considered premature that at a time of enhanced economic activity and increased construction activity (the first such increase since the commencement of Revenue Control periods for Irish Water) not to continue to allow for it in this next five year period

Kerry County Council is concerned that there is no allowance for growth of the operational budget over the entire period of RC3 (2020-2024). This concern stems from a number of factors which Kerry County Council is familiar with from its operation of the Service level Agreement with Irish Water.

COMPLIANCE COSTS

In many cases, particularly in wastewater, Irish Water is providing infrastructure which is now compliant infrastructure and facilities for the first time which means that there will be consequent significant additional opex expenditure to operate the new facilities than was heretofore. This would be quite different to the more mature UK utilities which are often used as comparators and even those identified as being directly comparable to the Irish water services model – Northern Ireland Water and Scottish Water. There exists a considerable deficit in the water services infrastructure of the county of Kerry that is only now being addressed.

In cases where compliance levels are being increased (often to tertiary standards) due to factors such as population and economic growth, this will inevitably have a knock-on effect in opex costs arising from increased energy and other (e.g. sludge management) costs. Irish Water's large capital programme will also inevitably result in many additional opex costs to operate the new assets and to meet compliance standards. It would appear that none of these factors are being taken into account in the allowable operational expenditure for Irish water as set out in the draft documents .

No funding provision has been provided for the deployment of waste water infrastructure for those towns and villages presently without such infrastructure . These unsewered towns and villages are in urgent need of such infrastructure to prevent current future environmental impacts and also to allow for development and growth in these rural areas .

COMPARATORS USED AND CURRENT LIFECYCLE STAGE OF INFRASTRUCTURE

The average age of the water mains infrastructure in Ireland is estimated to be in excess of 65 years. Irish Water is operating up to three times the number of water treatment schemes to that of its nearest comparator - Scottish Water. Within County Kerry , in recent times , we have had a number of major recent bursts on the main trunk main servicing our largest water distribution network , the Central Regional Water Supply Scheme which serves over 62,000 customers (over half the population of Kerry) and no provision has been made for the replacement of these nearly 40 year old AC mains pipes within the capital funding envelope envisaged in the next 5 year RC 3 period .

In a county that relies so heavily on tourism for its economic gains such a position is simply unsustainable .

COSTS OF TRANSITION TO SINGLE PUBLIC WATER SERVICES AUTHORITY

There is an assumption made that in relation to the move to a Single Public Water Services Authority as per the Government Water Policy Statement of July 2018, that efficiencies from the establishment of the single entity will begin to be realised within the RC3 period. However based on the rate of progress to date, there may be a significant delay to the transfer which will effect its realisation within this RC period .

Additionally, international experience of such transformations invariably record an initial increase in costs for a period before efficiencies, and cost reductions, start to be realised. Accordingly the level, pace and profile of savings forecasted over the RC3 period is unlikely to be realised as set out . It is noted that the highest cuts proposed (6%) are targeted for the latter years of the RC3 period. However this assumes that the Single Public Water Services Authority model is fully functional and producing efficiencies. Until then the position remains that the existing SLAs with the Local Authorities remain in force until they expire.

ADDITIONAL GROWTH FACTORS

There are a number of Policy factors driving growth and subsequently driving the Irish Water cost model such as taking in Charge of infrastructure (Group Water Schemes and residential estates), dealing with the legacy of developer-provided Infrastructure, water resources provisions for climate change, the development of operational resilience and dealing with major bursts in ageing pipelines which do not appear to have been factored in and relevant costings put against these factors to reflect the true nature of the substantial costs facing Irish Water in developing a modern resilient water and waste water infrastructure over the next Revenue Control period .

The challenges posed by predicted climate extremes demonstrates the need to have resilient water supplies that can cope with short-term events such as the recent snow event during Storm Emma, or longer-term events during a summer of drought conditions

The above sets out some of the concerns and the views of Kerry County Council regarding the funding being made available to Irish water as contained in the RC3 consultation document and we would make the case strongly that Irish Water as an entity is not at the stage of maturity as the single Water Services Authority that allows for costs to be consolidated or reduced . Irish Water is still in its start up phase and whilst this RC3 is proposed for a 5 year period it should be borne in mind that the two previous Revenue Control periods have only covered a similar period as Irish Water is still in the early stages of its establishment as the Water Services Authority .