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Re: CRU/20/143 Consultation Paper: Irish Water Revenue Control 3 – Revenue Incentives (*Non-Domestic Billing and Leakage*)

Dear Sir/Madam,

Irish Water (IW) welcomes the opportunity to respond to the Commission for Regulation of Utilities (CRU) consultation paper (CRU/20/143) which outlines proposed non-domestic billing and leakage revenue incentives for the RC3 period 2020-2024. IW recognises that performance-based revenue incentives are an important feature of the regulatory model, and can, as stated in the RC3 decision paper, “*complement and enhance the requirement for a regulated monopoly business to efficiently manage costs*”. However, we have a number of concerns with the CRU’s draft proposals and the leakage reduction incentive in particular.

A key challenge for IW since 2014 has been data quality and collation nationally, moving from the 31 Local Authority (LA) systems into the one Single Public Utility (SPU) model. Significant progress has been made in improving the level of information being collated through new standardised reporting processes and effective LA stakeholder engagement. This progress can be seen in the overall improved performance of IW, including leakage reduction. However, further work is needed to enable IW to report on all required data nationally in a systemised fashion. In particular, SPU implementation is an important requirement. SPU timelines are currently running behind those outlined in our RC3 submission to the CRU in November 2018 and this will have an impact on IW’s ability to fully control performance and deliver key operational and efficiency improvements.

Other factors are also important considerations in relation to the timing of performance incentives. For example, the COVID-19 emergency is having a substantial impact on IW’s revenues, operational activities and capital programmes as well as creating

significant uncertainty and clear difficulties for many of our customers. In addition, the Non-Domestic Tariff Framework Review is due for implementation in 2021 and is an important and complex change programme. Given these factors, IW considers that it would be prudent to postpone the rollout of revenue incentives at this point in the regulatory framework. IW proposes that implementation should instead be planned for the RC4 period (2025-2029).

However, if the CRU does decide to continue with revenue incentives during RC3 we wish to put forward some amendments to the CRU's proposals. We believe our proposals would improve the application of the incentives and better reflect IW's stage of development.

Our concerns and proposed amendments are set out in detail in the following response.

Executive Summary

Both the Interim Revenue Control 2017-2018 (IRC2) decision paper (CRU/16/342) and RC3 incentives consultation paper (CRU/20/143) outlined the proposed structure of the Efficient Billing (EB), Billing Correction (BC) and leakage incentive. However, they did not specify how exactly performance would be reflected in IW's allowed revenues. Clarity from the CRU is specifically needed on the following:

- Whether incentives performance would be administered through a year-by-year annual update, or at the end of a revenue control, where it is reflected in the opening position of the following revenue control through the K-factor. IW considers the latter to be more appropriate to IW's circumstances.
- Given the IW funding model, how incentive adjustments are to be reflected in IW's revenue allowance. Currently, performance for the non-domestic bad debt incentive is directly linked to revenue, which is subsequently reflected in a K-factor adjustment to overall revenue. IW assumes that an overall revenue adjustment would also be the mechanism used to apply any new financial incentives, but would welcome confirmation from the CRU on this point.
- Similar to the operation of revenue incentives in other frameworks regulated by the CRU, we assume that performance on each incentive is reported on and examined separately by the CRU. We also assume that the various financial payments or penalties are netted off one another to produce a single revenue adjustment.

Turning specifically to the leakage incentive, we have a number of serious concerns over the proposed calculation and format outlined by the CRU. These are:

- The CRU proposes that the incentive only relates to ‘real water losses’, and customer side leakage only. It is suggested that IW will not be rewarded for any reduction reported as a result of a reclassification of ‘Unaccounted for Water’ (UFW) to a national leakage figure (i.e. reduced ‘apparent losses’). This CRU proposal would be a material change from how leakage figures have been reported to date by IW to the CRU, various Government departments, and indeed our wider group of stakeholders. In line with international practice, IW has always reported leakage savings as a combination of reductions in ‘real water losses’ and ‘apparent losses’. Indeed, it would be extremely difficult to differentiate accurately between these contributions to leakage reduction.

Due to IW’s annual meter replacement programme, we will continue to improve our data on water consumption and will therefore always have some element of savings from ‘apparent losses’, in addition to reduced real losses related to IW capital and operational works. It is important to recognise that reduction of ‘apparent losses’ makes a valuable contribution to overall leakage performance. Reducing apparent losses provides clear benefits in terms of reduced UFW and an ability to accurately record consumption. To limit the leakage calculation to only ‘real water losses’ would place the CRU as an outlier among international peer regulators in leakage performance reporting.

- The leakage reduction target of 176 megalitres per day (MLD) by the end of 2024 needs to be revised. Due to more accurate data captured from the IW Leakage Reduction Program (LRP) over the last two years we now expect to save more gross water (water saved by IW fixing leaks in the public network) than previously estimated in the November 2018 RC3 submission. However, we also expect a lower Net reduction in water savings (savings that can be linked to a lower water production need at our Water Treatment Plants), due to the poor condition of the water network.
- The CRU proposes to include the private side leakage reduction target in the revenue incentive parameters. CRU/20/119 acknowledged that IW does not have ‘complete control’ over reducing leaks on customer supply pipes.¹ The cessation of domestic water charges affected the impact of the First Fix Scheme during IRC2 and this may continue into RC3 until Household Water

¹ Please refer to pg. 31 of CRU consultation paper on the Irish Water Performance Assessment 2020 to 2024 at the following [link](#)

Conservation charges are implemented. For an incentive to be effective, a utility must have the ability to exert significant control over its outcome. We do not believe this to be case for reducing private side leakage and therefore any incentive parameters should exclude private side numbers.

- The CRU has proposed that where IW fully meets its leakage target (100%), IW will receive the full revenue incentive payment. A 'dead band' applies whereby if IW reaches between 80-99% of its target, IW will not receive an incentive payment, nor will it be financially penalised. If IW reaches less than 80% of its target, it will be subject to the full revenue incentive penalty.

We do not believe the proposed 'symmetrical' format of the incentive is appropriate for IW at this stage in our development, given SPU implementation timelines and the continued need for data improvements in our LMS. We also believe the cliff-edge/'all-or-nothing' methodology for the incentive parameters should be changed to a more graduated approach. Finally, if the CRU does not accept our proposal to defer implementation to RC4, we suggest that the CRU should decrease the level of the proposed revenue incentive in RC3, from €20m to €10m, to reflect IW's trajectory to greater innovation in leakage reduction in later revenue cycles (RC4).

On the proposed EB and BC incentives, we largely agree with their proposed introduction, although we retain a number of concerns. They are:

- It is clear that many non-domestic customers are struggling as a result of the COVID-19 crisis. This means that the realisation of benefits from the proposed EB and BC incentives over the coming years will be much more difficult for IW. We would question the introduction of EB and BC incentives in advance of the new Non-Domestic Tariff framework. At a minimum, timelines for introduction of the incentives should be aligned to this new tariff framework.
- The CRU considers that the upkeep of non-domestic meters is the responsibility of IW and any errors incurred as a result of a failed / failing meter and any subsequent revenue losses should be borne by IW. IW does not believe that customers should bear the cost of errors incurred by failed or failing meters prior to being either replaced or fixed by IW. However, we do believe that once a failed, or faulty meter, has been identified and the issue rectified by IW, the customer should be billed from the date the error has been corrected. Therefore, we ask that this scenario is included in the BC incentive.

- The CRU proposes that IW calculate the EB and BC incentive payment for the 12 months following the date the issue is identified only. We suggest that this 'issue identification date' should be defined as the 'date of upload into IW billing systems'.

The remainder of our response cover the above points in more detail.

1. Proposed Incentive implementation

The proposed application of revenue incentives to IW was first set out in the IRC2 decision paper (CRU/16/342). Three incentives outlined in CRU/16/342 covered non-domestic billing – bad debt, EB and BC. The non-domestic bad debt incentive has been in operation since the start of IRC2. The implementation of the latter two incentives, EB and BC, was subject to the completion of the IW non-domestic data migration project. The RC3 decision paper proposed the introduction of a leakage reduction incentive, details of which were outlined in the consultation paper (CRU/20/143).

a) K-Factor or Annual revenue adjustment

The non-domestic bad debt incentive is the only one in which IW performance has been reflected in our revenue allowance to date. This incentive was applied through the K-factor process for IRC2.

Since 2014 the IW revenue control framework has been operating under a multi-year revenue allowance, with no annual revenue adjustments made between revenue controls. This, combined with the current IW funding model, would suggest that incentive performance would be more appropriately accommodated through the IW K-factor process at the end of the revenue control.

We would ask that the CRU clarify this matter as part of its RC3 Incentives decision paper.

b) Mechanism to reflect incentive performance in IW revenues

Under the IW revenue control framework, IW revenues are made up of an allowance for operational costs (opex), a depreciation charge for the investment that IW has made in the Regulated Asset Base (RAB), and a return on investment for the value of that RAB. The vast majority of our allowed revenue is then recovered through Government subvention (c.80%), while the remainder is derived from Non-Domestic Charges.²

Currently, as noted above, performance for the non-domestic bad debt incentive is directly linked to revenue in the K-factor adjustment to overall revenues. Our assumption is that this approach (i.e. an overall revenue adjustment) would also be applied to the new EB, BC and leakage incentives. We would welcome CRU confirmation of this point.

² There is an expectation that the Household Water Conservation Charge will be introduced at some point during the RC3 period.

c) Separate reporting with overall payment/penalty

The proposed introduction of the EB, BC and leakage incentives means that there will now be four separate revenue incentives in operation during RC3. Similar to the operation of revenue incentives in other frameworks regulated by the CRU, we assume that performance on each incentive is reported on and examined separately by the CRU. We also assume that the various financial payments or penalties are netted off one another to produce a single revenue adjustment. We would ask that the CRU consider this matter prior to finalising the Incentives decision paper.

2. Proposed Leakage Incentive

Reducing leakage is one of IW's key functions. It reduces costs, improves operations across the network, and is better for the environment. We also recognise that reducing leakage is a key concern for the CRU, our wider stakeholders and the Irish public.

Prior to the establishment of IW, the calculation of leakage rates across the country varied widely between LAs, depending on the methodology used and the quality of available data.

Since 2014 there has been significant work done by IW on reducing leakage, as well as putting the systems in place to effectively track, report and reduce leaks. One of these key systems is our Leakage Management system (LMS). We are in the process of fully implementing the LMS across the 31 LAs. The LMS is being updated with more robust information year-on-year, which allows IW to direct our operations more effectively in a systemised manner. We expect this improvement to continue over the coming years.

IW continues to work hard with our LA partners on the ground to reduce leakage to a more sustainable level. As part of the RC3 Investment Plan, we are progressing the Leakage Reduction Programme (LRP) which has a projected spend of over €400m. The LRP comprises several national sub-programmes targeted at identifying and repairing leaks, network rehabilitation, and capital maintenance of network assets.

Even with the challenges faced due to ageing assets and a legacy of underinvestment, we have seen good progress in reducing leakage since IW establishment. Given the continuing importance of strong performance in this area, we understand the CRU's intention to introduce a revenue incentive for RC3. However, it is clear that the full implementation of the SPU is a key requirement to fully control performance and deliver key efficiency and operational improvements.

SPU timelines are currently running behind those originally outlined in our RC3 submission. We therefore consider that it would be more appropriate to implement a leakage reduction incentive in RC4. Should the CRU not agree with this proposal and decide to progress as planned in RC3, we wish to raise a number of additional concerns, as set out below.

a) Real Water Losses and Data Improvements

The CRU proposes that the incentive should only relate to 'real water losses', and customer side leakage only (private side). The consultation paper suggests that

measured outturn performance will not include “*any reclassification of ‘Unaccounted for Water’ (UFW) to a national leakage figure*”. We are deeply concerned with this CRU proposal, as it would represent a material change to how leakage figures have been reported to date by IW to the CRU, various Government departments and our stakeholders.

Since establishment IW has been using UFW as a proxy for leakage on the distribution network. We understand that this is not a perfect representation of actual leakage on the network. However, it is our best approximation given the state of the network, the lack of systemised reporting prior to the introduction of the LMS, and the continuing need for more accurate network information.

The composition of water usage and water losses across various categories can be seen in the IW water balance table.³ The table captures how the total volume of water entering into the network (‘distribution input’) is apportioned between ‘authorised use’ (across domestic, non-domestic and unbilled water use) and ‘water losses’ (which is subdivided into ‘apparent losses’ and ‘real losses’). The CRU’s proposal is that a reduction in apparent losses should not be included in the performance outturn of the leakage metric, or in other words, “*reclassification of ‘Unaccounted for Water’ (UFW) to a national leakage figure*”.

IW has, since 2014, reported reduced leakage to the CRU as a combination of reduced real losses coming from IW capital and operational works on the ground and reduced apparent losses (i.e. moving UFW to AFW). Reducing apparent losses is carried out in a number of ways, primarily by our annual meter replacement programmes, but also through identifying unrecorded connections (i.e. unrecorded consumption) which is then marked as consumption, and continuous refinement of the LMS through DMA analysis. We refer to these actions as ‘data improvements’.

It is important to recognise that reduction of ‘apparent losses’ makes a valuable contribution to overall leakage performance. Reducing apparent losses provides clear benefits in terms of reduced UFW and an ability to accurately record consumption. These benefits would not have been possible without IW investment in meter replacement, systems such as the LMS, and working with our LA partners to further improve leakage information.

Furthermore, the 176 MLD target, submitted as part of our original RC3 Investment Plan to the RC3, and subsequently approved by the CRU, was a combined figure, taking into account such data improvements referred to above. A combined figure was

³ Please see Water Balance Table , figure 2 page 14 at the following link [here](#), Water Advisory Board publication.

also submitted as part of our Strategic Funding Plan 2020-2024 and it is what we present to our National Stakeholder Forum. Due to IW's annual meter replacement programme, we will continue to improve our data on water consumption and will therefore always have some element of savings from 'apparent losses', in addition to reduced 'real losses' related to IW capital and operational works. Practically, it can be very difficult to accurately differentiate the individual contributions of reductions in 'apparent losses' and 'real water losses' to overall leakage performance.

Importantly, the inclusion of reduced 'apparent losses' in leakage savings is also aligned to international practice. The 'combined figure' is used by the International Water Association (IWA) as part of its water balance table recommendations for members on how to report leakage, including UK water utilities who report performance to Ofwat.⁴ If the CRU were to exclude reduced apparent losses in the analysis of leakage, or incentive performance, it would be an international outlier.

We ask that this proposal is amended in the incentive decision paper. If it is not, IW will have to re-examine its leakage targets for the RC3 period.

b) Revised RC3 end 2024 MLD target

In our RC3 submission and in the CRU's subsequent decision, a leakage reduction target for end of 2024 was proposed at 176 MLD net (161 MLD public and 15 MLD private). This 176 MLD referred to a net leakage reduction on the public network (i.e. up to the point of the customer's meter / stop cock) of 161 MLD and a separate net leakage reduction of 15 MLD on the private side (i.e. past the meter / stop cock). We have now revised those figures to 118 MLD public and 13 MLD private by end 2024, the reasons for which are set out below.

Public Side

Firstly, the original RC3 run rates (i.e. the cost to achieve Net leakage savings) for the LRP work streams (Find & Fix, Pressure Management and First Fix), which supported the November 2018 submission, were based on guidance from UK experience. There was a low confidence level attached to these run rates and they did not reflect the poor condition of the Irish network. These UK run rates estimated, when converted from sterling to euro, how much net MLD would be saved for every million euro of expenditure by IW.

⁴ Please refer to Figure 1 (green rows) in the following IAW publication [here](#).

The run rates now derived by IW are based on real data from two years' experience from the LRP, are therefore more applicable to an Irish context, and are more reliable. Prior to the LRP we had a very poor understanding of our below ground assets and how they would respond to leakage reduction activity. It is now evident that the network has not responded well in many cases, resulting in new leaks developing due to nearby repair activity, which is reflected in the higher run rates for Find & Fix.

We did not have an original Irish based Gross: Net ratio of MLD leakage savings across any of the LRP works when we made our RC3 submission in November 2018. For the purposes of the Updated 2020-2024 Strategic Funding Plan submission to the Department in Q4 2020, a Gross: Net ratio of 4:1 was applied to the Find & Fix Programme, while a figure of 2:1 was applied to the Pressure Management Programme. These ratios vary depending on the size and complexity of the network and Water Supply Zone. For example, the GDA is likely to have a higher Gross: Net ratio than rural areas, which means a higher volume of leakage works are required at a DMA level, before they will be realised back at the Water Treatment Plant.

However, the latest 2020 annual information returns, produced in Q1 2021, show the Find & Fix ratio to be closer to 6:1. Furthermore, we expect to see diminishing returns for the remainder of RC3. This is because as RC3 progresses the LRP works will identify and repair large leaks, leaving smaller and less volumetric leaks on the network. This will make the achievement of gross water savings more challenging.

A further reason for the revision of the leakage target relates to the rollout of the LMS. The LMS had not been deployed out when original RC3 leakage targets were derived. The November 2018 Investment Plan submission was based on a data freeze of March 2018. As a result, we had an incomplete and inconsistent picture of our leakage levels across the country, which did not provide a strong foundation on which to make accurate predictions around future leakage targets. With the LMS now in place, we have greater confidence in our data. The work to improve data is a continuous process and further improvements projects are required and planned over the next 5-10 years.

The combined effect of these factors has resulted in a revised public side target of 118 MLD by end 2024. While we believe that the 118 MLD is a realistic target for IW given constrained funding and COVID-19 impacts, we also recognise the role of the CRU in setting stretching outcome objectives for IW. Therefore, IW proposes that a challenging, stretch target of 130 MLD be the CRU target on public side leakage for revenue incentive purposes, provided that both reductions in real water losses and apparent losses are included in the calculation (as set out earlier).

Private Side

Reduced leakage on the private side comes through savings on customer supply pipes. Some repair works are carried out by IW through the First Fix programme and other internal plumbing works are carried out independently by the customer.

We are slightly adjusting down our private side target for end 2024 from 15 MLD to 13 MLD Net leakage. Through the First Fix Programme, and with customer input, we have been able to target the largest private side leaks over the last couple of years (>10m³/day etc). As a result, most of the largest leaks have now been rectified and we expect that over the coming years we will be addressing a higher volume of lower value leaks (<10m³/day etc), hence the revised MLD estimate for end 2024.

We estimate a 4:1 Gross: Net ratio and therefore a gross savings of 52 MLD by end 2024 will need to be achieved by the First Fix programme.

c) Inclusion of private side targets in leakage incentive

The CRU proposes to include the private side leakage reduction target in the revenue incentive parameters. We would have serious concerns about this approach given, as highlighted above, the external dependence on customer engagement for effective private side leakage reduction.

Our influence in this area is limited to the First Fix programme that has been in operation since 2015. There has been a very low uptake of the First Fix Scheme during IRC2, resulting in lower private side savings despite additional costs incurred in follow up communications, resourcing etc. The abolition of domestic water charges has removed the biggest incentive for customers to resolve any private side leaks in a prompt manner. Although we expect uptake of the First Fix Scheme to increase during the latter part of RC3 with implementation of the Household Water Conservation (Excess Use Charge) regime, this is not guaranteed, and improvements are difficult to forecast.

The CRU consultation on IW's Performance Assessment Framework (CRU/20/119) acknowledges that IW does not have 'complete control' over reducing leaks on customer supply pipes.⁵ For an incentive to be effective, a utility must have the ability to exert significant control over its outcome. We do not believe this to be case for private side leakage and therefore any incentive parameters should include public side leakage only.

⁵ Please refer to pg. 31 of CRU consultation paper on the Irish Water Performance Assessment 2020 to 2024 at the following [link](#)

d) Leakage incentive parameters

The CRU's consultation paper outlines a range of parameters for the leakage incentive. Where IW fully meets its leakage target (100%), IW will receive a €20 million incentive payment over RC3. This incentive would be capped at €4 million per year. A 'dead band' applies whereby if IW reaches between 80-99% of its target, IW will not receive an incentive payment, nor will it be financially penalised. If IW reaches less than 80% of its target it will be a subject to a penalty of €20 million over RC3. We have two main concerns with these proposals.

Move from symmetric to asymmetric targets

We do not believe the proposed 'symmetrical' format of the leakage incentive is appropriate for IW at this stage in our development, given SPU implementation timelines and the continued need for data improvements in our LMS. As a result, IW proposes that if a leakage incentive is introduced in RC3, as currently planned, then no financial penalties should be imposed, i.e. any leakage incentive for the RC3 period, if implemented, should be fully asymmetrical.

IW does not have complete control over activities which affect overall leakage on the network. Until the SPU is implemented, IW is limited in influencing the outcome of leakage reduction as we rely significantly on the engagement of external parties. In addition, leakage metrics can be adversely affected by unforeseen weather events, such as excessive freezing which may cause large losses due to burst networks.

In a previous revenue control decision for the electricity network companies, the CRU acknowledged that a utility "...can only be incentivised in a symmetrical fashion for activities it has complete control over".⁶ This CRU paper also stated that "asymmetric parameters will also allow the TAO (electricity network utility) to get used to this incentive and provide a buffer against any unforeseen events".⁷ We believe that a similar asymmetric approach should be adopted for IW, if a leakage reduction incentive is introduced in RC3.

Move from cliff-edge to graduated approach

We also believe the cliff-edge/'all-or-nothing' approach to the incentive parameters is overly severe and would not promote more efficient IW practice. IW would be either receiving the full 100% of the incentive payment, none of the incentive payment, or

⁶ Please refer to pg. 21 of CRU paper Decision on 2011/2012 Transmission Incentives at the following [link](#).

⁷ Ibid, pg. 25.

subject to a full 100% penalty. We recommend that the CRU should apply a more graduated approach which would meaningfully incentivise IW to continuously improve. This would be reflective of incentive parameters applied by the CRU to other Irish network utilities.⁸ We suggest the following graduated options.

- Option 1: Partial Payment Based on a Percentage of Targets Achieved (up to a threshold of €20 million – capped at €4 million per year)

IW proposes an incentive payment which is triggered at a minimum of 80% target achievement and is then graduated according to the percentage of the leakage reduction target achieved. This would be up to a total cap of €20 million over the five-year RC3 period, or €4m per year.

The proposed scale is set out in the table below:

% of Target Achieved	Total Incentive Payment over RC3
80%	€4m
85%	€8m
90%	€12m
95%	€16m
100%	€20m

Table 1: Partial Payment Based on a Percentage of Targets achieved (up to €20 million)

- Option 2: Partial Payment Based on a Percentage of Targets Achieved (up to a threshold of €10 million – capped at €2 million per year)

Equivalent approach to Option 1, but with a reduced total cap of €10 million over the RC3 period.

% of Target Achieved	Total Incentive Payment over RC3
80%	€2m
85%	€4m
90%	€6m
95%	€8m
100%	€10m

Table 2: Partial Payment Based on a Percentage of Targets achieved (up to €10 million)

⁸ For example, a more graduated approach can be seen in the PR5 TSO System Frequency and System Minutes Lost targets. Please see sections 7.5 and 7.6 at the following [link](#)

As an initial incentive programme, IW has included Option 2 as an alternative. The rollout of the LMS introduces a new and fundamental change in how leakage is reduced in Ireland and is instrumental in determining the leakage reduction targets. As stated above, this work to improve data is a continuous process and further improvement projects are required and planned over the next 5-10 years. As a result, if a leakage incentive is introduced in RC3, it may be more appropriate to have lower revenue thresholds, as set out in table 2 above.

The CRU has encouraged other utilities “...to be innovative and explore options to improve the efficiency and effectiveness of system operation and development”.⁹ In time, we expect to rely further on more innovative approaches to reducing leakage across the network. As our LRP progresses through RC3, leaks will become harder to find, requiring IW to undertake more innovative solutions. Higher revenue incentives may therefore be more appropriate to IW efforts to reduce leakage in future revenue cycles.

⁹ Please refer to pg. 39 PR5 of CRU paper Regulatory Framework, Incentives and Reporting at the following [link](#).

3. Proposed EB and BC Incentives

Since the publication of the IRC2 decision, IW has taken steps towards implementation of the two non-domestic billing incentives (Efficient Billing and Billing Correction). These two incentives can be further defined as following:

- Efficient Billing – IW to identify and correctly bill any non-domestic customers connected to the IW network that do not receive a bill for the use of water and wastewater services. The intention is that if IW bills more connected properties (i.e. above the baseline amount) they keep a certain percentage of the additional revenue billed; and
- Billing Correction – IW to identify and correct instances where properties are being charged less than they should be charged. Under this incentive if IW identifies eligible non-domestic customers that have been under-billed and start to bill those correctly, it is allowed to keep a portion of the additional revenue collected.

We would ask the CRU to consider the following points prior to reaching a decision.

a) Align implementation with NDTFR timelines

We acknowledge that significant work was undertaken jointly by IW and CRU over IRC2 to aid implementation of effective EB and BC incentives, including the identification a baseline against which performance could be measured. We have also engaged on the development of scenarios across the proposed EB and BC incentives.

Finding non-domestic customers who should be billed for the services provided by IW, and indeed correcting the bills of those customer underpaying, are important actions for IW. They promote fairness and trust in the billing of our non-domestic customer base. However, it is clear that many non-domestic customers are now struggling as a result of the COVID-19 crisis. This makes the realisation of benefits from the proposed EB and BC incentives much more difficult for IW over RC3.

In addition, we would question the introduction of EB and BC incentives in advance of the new non-domestic tariff framework, which is an important and complex change programme. We suggest that any regulatory changes in the non-domestic sector, including incentives, should take cognisance of the changes coming through the NDTFR. The incentives consultation paper does not specify a timeline as to when these incentives are to be introduced. As outlined earlier, given the uncertainty introduced by

COVID-19 and the need to reconsider SPU timelines, IW is proposing that all additional financial incentives should instead be planned for the RC4 period. If the CRU does proceed in RC3, then we suggest that introduction of the non-domestic incentives is postponed, at a minimum, until the NDTFR is implemented.

In the meantime, IW will continue to monitor non-domestic customer revenue matters, further develop appropriate incentive scenarios, and work to support our customers in navigating the COVID-19 crisis.

b) EB and BC scenarios

IW developed four proposed EB and BC case examples which are considered representative under various EB and BC scenarios. Below is a summary table of these scenarios / case examples:

Efficient Billing	Billing Correction
Scenario 1 Non-Domestic Meters Not Transferred at Migration	Scenario 3 Failed / Failing Meter - Subsequently Exchanged / Repaired
Scenario 2 Surveying - New Meter / Supply Identified	Scenario 4 Backdated Move-In via 'Feet on the Street'

Table 3: Proposed EB and BC scenarios

Details of these four scenarios were submitted to the CRU and have been presented in the CRU's consultation paper. These scenarios, once approved by the CRU, would set the rule set for the EB and BC incentives, upon implementation date.

The CRU suggests that the upkeep of non-domestic meters is the responsibility of IW and any errors incurred as a result of a failed / failing meter and any subsequent revenue losses should be borne by IW. As such, the CRU proposes that scenario 3 not be included in the rule set / criteria. We would question this exclusion of scenario 3.

IW inherited an aging asset base upon taking over the water network in 2014, including c.178,000 non-domestic meters. These meters cover many different types, specifications, and may have been installed some time ago. Many of these non-domestic meters will not have been regularly maintained prior to IW establishment, resulting in failed or failing meters providing incorrect information to IW systems. IW

has been repairing and replacing failed or faulty meters as soon as they are discovered in order to improve meter performance for our customers.

IW does not believe that customers should bear the cost of errors incurred by failed or failing meters, prior to being either replaced or fixed by IW. However, we do believe that once a failed, or faulty meter, has been identified and the issue rectified by IW, the customer should be billed from the date the error has been corrected. This is primarily an issue of fairness across the entire non-domestic customer base, a core principle that the CRU has identified for the water services regulatory framework. Therefore, we would ask that the CRU reconsider the inclusion of Scenario 3 in the BC incentive.

IW has been proactive in carrying out work across a number of other potential EB and BC scenarios, however we are prioritising the four outlined above for initial focus. Other scenarios may be submitted to the CRU later in RC3, once further analysis is completed by IW.

c) Issue identification date

In its consultation paper, the CRU suggested that there may be a time lag between when IW first identifies a non-domestic customer and when it starts to bill that non-domestic customer. As such, the CRU proposes that IW can calculate its incentive payment (i.e. 42% of the additional revenue billed to that customer) for the 12 months following the date the issue is identified only.

IW recognises that there should be time limitations applied to the EB and BC scenarios. However, there may be occurrences where there is a time delay between when an issue is identified by IW, e.g. through a site visit by IW or LA staff, and when the information is uploaded onto IW systems. Therefore, IW proposes that the 'issue identification date' should be defined as the date that the issue is uploaded into IW billing systems. The duration of the incentive to be collected would then be 12 months effective from this issue identification date. This would apply to all EB and BC scenarios.

4. Summary

IW recognises that performance-based revenue incentives are an important feature of the regulatory model, and can, as stated in the RC3 decision paper, “*complement and enhance the requirement for a regulated monopoly business to efficiently manage costs*”. Given the impact and uncertainty of COVID-19, the rollout of NDTFR, and the need for full SPU implementation to provide full control of performance, we would question the implementation timelines for the IW incentive framework. We suggest a more appropriate timeframe would be RC4 (2025-2029).

Nevertheless, if implemented during RC3, clarity on a number of key matters is required, including how any potential incentive payment would be reflected in IW’s revenue allowance.

On the leakage reduction incentive, it is crucial that the CRU reconsiders its proposal to only include savings from ‘real losses’ in the incentive parameter. If implemented, this would place the CRU as an outlier among international peers in how leakage reduction performance is reported. It would also require IW to diverge from international practice and fundamentally change how we present leakage statistics. Our leakage reduction targets for RC3 would therefore need to be urgently reviewed. It is essential that any leakage performance is measured through a combination of reductions in real losses and apparent losses.

In addition, the original RC3 target of 176 MLD by the end of 2024 needs to be revised due to more accurate data coming through our LRP over the last two years. We would also question the inclusion of private side MLD numbers in the revenue incentive parameter given that IW does not have complete control over reducing leaks on customer supply pipes.

We do not believe the proposed ‘symmetrical’ format of the leakage incentive is appropriate for IW at this stage in our development, given SPU implementation timelines and the continued need for data improvements in our LMS. We also believe the cliff-edge/‘all-or-nothing’ approach to the incentive parameters should be more graduated. Finally, we suggest that the CRU should decrease the level of the proposed revenue incentive, from €20m to €10m over the RC3 period, to reflect IW’s trajectory to greater innovation in leakage reduction in later revenue cycles (RC4).

On the proposed EB and BC incentives, we largely agree with their proposed introduction, although we retain a number of concerns, including the timing of introduction. COVID-19 is having a serious impact on businesses across the country at

this time. In addition, we question the introduction of EB and BC incentives in advance of the new non-domestic tariff framework. If implemented during RC3, timelines for introduction of EB and BC incentives should, at the earliest, be aligned to those of the new tariff framework.

We believe that scenario 3 should be included in the EB and BC scenarios given that once a failed, or faulty meter, has been identified and the issue rectified by IW, the customer should be billed from the date the error has been corrected. Furthermore, given the potential for time delays, we suggest that the starting clock on the 12-month incentive payment period is when the issue is uploaded into IW billing systems.

We welcome the continued engagement with the CRU on these important revenue incentives. IW recognises that they are key building blocks in the continued development of the water service regulatory framework. However, we have raised important points in this response paper that require further consideration by the CRU. We are happy to continue working with the CRU to examine and resolve these issues satisfactorily in advance of an incentives decision paper.