



**CHAMBERS
IRELAND**
IN BUSINESS FOR BUSINESS

Chambers Ireland is pleased to make this submission to the Department of Environment, Community and Local Government.

Chambers Ireland fully supports the polluter/user pays principle. In this context we believe that the Government's planned establishment of Irish Water coupled with the roll out of a full domestic water charging regime, can play a significant role in assuring that this society has the required levels of funding needed to complete the upgrade of Ireland's water treatment and delivery infrastructure. However, we suggest that the ideal solution will be if this entity is established as an appropriately regulated commercial semi state company.

We believe that following the announcement of a €100 Household Charge from January 2012 for two years, the Government must now explore ways to fast-track the introduction of water meters and user charges, which will in turn fund the ongoing investments needed to deliver an adequate water supply for all users.

If Irish Water is set up as an independently funded, regulated commercial state company rather than as a state agency, then the likelihood of water supply issues arising in the future will be significantly reduced in the medium term. In order to address the need for substantial investments in our water infrastructure this critical infrastructural investment need, it is vital that Irish Water is adequately funded.

The delivery of a comprehensive domestic water charging regime will guarantee that the revenues needed to meet both the significant capital and operating expenses associated with delivery of this vital resource are generated. Furthermore, security of supply is of vital importance to the members of Chambers Ireland. Without adequate continued investment, we cannot be assured of supply security in the future. This underlines the need for an adequately funded water delivery and treatment system that serves the needs of all users in the future.

However in our view the case for 100pc metering of all homes is not proven and it may be more cost effective to deliver a combination of metering and/or flat charging regime depending on which is the most cost effective solution for both the utility and householders.

Structure

In terms of its structure, we welcome the fact that Irish Water will be a regulated commercial state-owned body. This is vital given the need for multiannual funding programme, Irish Water's capital funding and borrowing needs should be met by the application of a Regulated Asset Base (RAB) model of funding—as is used by the Commission for Energy Regulation (CER) to support multi-billion euro investments by commercial State companies that it regulates.

An RAB model would also require that Irish Water be able to raise revenues from its customers in a manner similar to that used by other state owned utilities. This would ensure adequate funding, protect the independence of Irish Water and also ensure that the true level of social welfare expenditure by the State is not disguised via ‘free’ water delivery. This is because costs for servicing social welfare recipients or others that society deems unable to pay for the service would be covered using the same strategies that currently apply for electricity supply or the TV license.

Fragmentation

Issues of fragmentation in terms of planning for optimal levels of extraction from river basins to achieve economies of scale in water treatment and provision must also be looked at. Economy of Scale issues clearly apply given that one combined water company serving Ireland would still be smaller than any of the water companies currently operating in the UK.

At present every Local Authority is a water authority that has to meet its costs via a mix of charges on the commercial sector and the Local Government Fund (LGF). While current prices reflect local costs, we understand that the Department does not inform local authorities regarding what portion of their LGF allocation derives from the operating expenses associated with water services treatment and delivery. A further issue regarding fragmentation is that investment may not be optimised to where it is most needed.

Unaccounted for water (ufw)

Unaccounted for water volumes are still very significant in Ireland with some Local Authorities still losing more than 50pc or more of their treated water supplies to ufw.

We note that a number of Irish group water schemes have managed to drop their ufw rates to less than 12pc following infrastructure investments—including re-laid water mains and the metering of every connection. Irish Water would ensure that those investments with the potential to achieve the greatest returns would be prioritised.

Other benefits arising from the creation of a commercial semi state water company.

Another potential savings opportunity would be the introduction of faster planning and commissioning processes. Currently, there are significant paperwork hurdles to be overcome prior to a Local Authority successfully completing a project.

An independent water company could speed this process up by taking planning and construction oversight ‘in house’ and funding this via the aforementioned RAB model of funding agreed with a regulator such as the Commission for Energy Regulation.

At present, the high instances of variability and divisions of treatment sites make it very hard to determine the level of imbalance between sourcing and providing water. A lack of scale in water treatment and delivery capability contributes directly to a lack of scale in water facilities around the country. For example, the city of Paris with a population of 2.1 million has achieved significant economies of scale in water services provision with only four reservoirs being used.

We believe that an existing Irish Commercial Semi-State company with regulatory experience should act as foster-parent to the new Irish Water. A concern regarding opting for a ‘Greenfield’ company

operation not sheltered within the orbit of an existing commercial semi state company is that it could create a lot of risk in terms of establishing a shared vision, and agreed processes and procedures that could hinder the development of the company in the start-up phase. There is also a significant procurement risk associated with selecting a management partner. We note that in the consultation paper, there does not appear to be enough consideration of the merits/demerits associated with the management partner option.

Metering/Cost of water

We note and concur with the findings of The 2008 Forfas report on the Assessment of Water and Waste Water Services for Enterprise which states that the provision of adequate and affordable water and waste water services is crucial to ensure the sustained growth and development of enterprise in Ireland.

We suggest that there should be flexibility in terms of the pricing structure to ensure that the charges for water impact on water usage. The cost of introducing metering is largely a fixed capital cost (with the variable cost being about 20% of overall costs). It would be preferable to have the charges for water being applied in the opposite ratio, i.e. 80% for water usage and 20% for the installation as per non domestic regime. We suggest that water conservation measures be introduced in tandem with the introduction of water metering.

It is vitally important that the cost of water to business remain affordable and that businesses not be over-charged in the introduction of general water metering for the Domestic Sector. The existing business charge is paid on the marginal capital cost of water/not the average cost. There is a concern that these charges should not rise in the transition to Irish Water.

While we appreciate that the Department wishes to roll out water metering at a fast pace of €1.05 million houses in three years. We suggest that metering be rolled out over a longer time frame due to the difficulties that would be incurred.

Rationalisation

Rationalisation would free water services staff from strategic programme planning and investments thereby enabling them to focus exclusively on maintenance and operations. Scale would also better facilitate the oversight of the interaction between mains public schemes with group water schemes. The delivery of consistent financial and operation management would also allow for greater transparency in costing and pricing for service delivery.

A further operational saving that could arise would be in storage and parts. Economies of scale would enable the rationalisation of spare parts purchasing and storage—especially for critical parts with long supply lead times. Similarly, maintenance depots could be significantly rationalised.

At present Local Authorities are both service providers and licensing/regulatory agencies—albeit often supported by the EPA. In future, Local Authorities should play the vital role of being custodians of the water environment overseeing abstraction regimes on a river basin wide basis.

In summary, the Government needs to proceed with the establishment of a single commercial State enterprise that is responsible for providing water and waste water services on a national basis that

operates independently of Government; while being subject to regulatory oversight and being mindful of the needs for a cost effective and competitively priced service for business in the future.

Chambers Ireland

24th February 2012