



**SUBMISSION TO THE COMMISSION FOR REGULATION OF
UTILITIES ON**

Irish Water Revenue Control 3 – Interim Review

29th July 2022

Contents

Introduction to An Fóram Uisce – The Water Forum	3
Submission to CRU on Irish Water Revenue Control 3 – Interim Review	3
Q1. Do you agree with the CRU’s proposed framework for assessment of IW’s RC3 needs.	4
Q2. Options for adjustment and why?.....	4
Q3. Is there another appropriate mechanism? What is this?.....	5
Q4. Should calculations be applied over the full RC3 term or just 2022 to 2024?	5
Q5. Do you have any comments on the CRU’s proposal to allow Irish Water to draw-down on major project ringfenced money to fund additional cost pressures?	5
Q6. What incremental controls should be incorporated into the CRU’s capital monitoring programme to ensure transparency for any incremental projects?	5
CONCLUSIONS.....	6

Introduction to An Fóram Uisce – The Water Forum

An Fóram Uisce - the Water Forum (hereafter The Water Forum) was established in June 2018 in accordance with the provisions of Part 5 of the Water Services Act 2017. The Water Forum is the national statutory body representative of all stakeholders with an interest in the quality of Ireland's water bodies. The Water Forum consists of 25 members including representatives from a wide range of organisations with direct connections to issues relating to water quality and public water consumers. Approximately 50 different organisations were involved in the nomination of members.

The Water Forum'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 well-being. The cost of access to both services, and their on-going service provision, should be based on an economically reasonable, equitable, fair and transparent basis.

One of the functions of The Water Forum outlined in the Water Services Act 2017 is to **advise and provide observations to the Commission for Regulations of Utilities (CRU):**

- i. **in relation to the performance by Irish Water of its functions, and**
- ii. **when requested in writing in that behalf by the Commission, on any consultation document prepared by the Commission in respect of water services provided by Irish Water.**

Submission to CRU on Irish Water Revenue Control 3 – Interim Review

The Water Forum recognises the need for the Commission for the Regulation of Utilities (CRU) to review Irish Water's Revenue Control 3 (RC3) funding to address the impact of recent inflationary pressures and welcomes the opportunity to input to these considerations. In comparison, to practices for other utilities where Harmonised Index of Consumer Price (HICP) is accounted for in annual revenue determinations, there has been no regulatory correction for Irish Water within the RC3 period to date (except for an Operational expenditure allowance in 2021 to support for the delay in the delivery of the Single Public Utility).

RC3 funding is based on 2017 pricing with projected inflation rates of up to 2% as published in the Regulatory Model in 2020. In May 2022, the Central Statistics Office stated the HICP had increased 8.3% year on year and the European Central Bank forecast HICP inflation to average at 7.2% in 2022 and abate in 2023 to 3.8%. In addition, Real Price Effects (RPEs) can be significantly higher than HICP such as the increased cost of steel (up 40%) and electricity (up 40%) and these among others are likely to have significant effects on capital projects and operations. Most utilities can reflect these additional costs in fees and tariffs but this option is not available to Irish Water.

The Water Forum is of the view that it is essential that Irish Water remains in a position to deliver on its Capital Investment plans and operational procedures to the highest standards in order to meet all of their and Ireland's regulatory requirements.

Q1. Do you agree with the CRU's proposed framework for assessment of IW's RC3 needs.

As outlined above, the Water Forum agrees that Irish Water (IW) is facing real cost pressures that are not currently funded under RC3. These costs are considered material and outside of Irish Water's management control and that not addressing these revenue shortfalls is likely to impact on the timely delivery of IW Capital Investment programmes and water and wastewater services to customers.

Q2. Options for adjustment and why?

The Water Forum supports the CRU's aim to identify options that ensures IW has access to sufficient funds to deliver operations at an appropriate level of service and investment but that does not undermine incentives for operational and capital efficiency of output. The Forum considers it prudent to account for any additional financial supports already provided to Irish Water that are above the RC3 level.

The Forum has considered the Options presented by the CRU but fear that the CRU's preferred Option 1, a HICP only adjustment for RC3 could leave IW with a funding shortfall that could impact on its delivery of projects and programmes and risk negative impacts on water and wastewater services.

Considering the magnitude of the increase in inflation in 2022 and the European Central Bank's forecast for 2023, along with the additional Real Price Effects the Water Forum supports the application of Option 2, that is, HICP adjustment *plus* a specific differential inflation adjustment. This will ensure that IW will be in a position to continue to deliver on commitments already made under its Strategic Plan and have no detrimental impact on the provision of water and wastewater services.

Considering the current price volatility this adjustment could be applied for 2023 and assessed again in 2024. To ensure fairness to the taxpayer it is important that any adjustments are subject to k-factor corrections at the end of the control period and that there is transparency and accountability in what the additional revenue is used for by Irish Water.

Investment in water and wastewater services and infrastructure is a priority for society, essential for a healthy environment and economy and as the only source of funding for these services is the RC3 mechanisms these adjustments need to be made so that services and infrastructure delivery is not delayed or otherwise negatively impacted.

Q3. Is there another appropriate mechanism? What is this?

The Water Forum does not have expertise in this area and supports the CRU and Irish Water seeking guidance from other jurisdictions on other potential mechanisms that might be implemented.

Q4. Should calculations be applied over the full RC3 term or just 2022 to 2024?

As stated above, considering the current price volatility, we recommend that Option 2 is applied for 2023 and a further assessment is carried out in 2024 to assess needs at that stage. This additional flexibility should allow IW to respond to price shocks and provide the services needed within desirable timeframes.

Q5. Do you have any comments on the CRU's proposal to allow Irish Water to draw-down on major project ringfenced money to fund additional cost pressures?

The Water Forum is disappointed that ringfenced funded projects are not being delivered as planned. We trust that the reason for these delays will be investigated, and structures will be put in place so that specifically funded projects are implemented as planned in future.

The Water Forum recommends that these funds are reassigned to progress shovel ready projects preferably those needed to address issues for water quality in the 208 waterbodies failing from wastewater treatment pressures identified in the draft River Basin Management Plan or to address water supplies on the Remedial Action List or other such priority.

In addition, there needs to be transparency and accountability in all such reassignments being applied to funding and budget lines. The Water Forum believes such openness and transparency is essential to build trust in Irish Water as it moves into position as a new single public utility.

Q6. What incremental controls should be incorporated into the CRU's capital monitoring programme to ensure transparency for any incremental projects?

As noted above, the ringfenced funding could be used to fund improvements in priority waterbodies and the project details and timelines could be included in the CRU's capital monitoring programme as well as the RBMP. Timelines could also be included for the completion of actions to address the Remedial Action List or the assessments on shellfish and other protected designated areas and the necessary treatment process upgrades could be scheduled as this was another recommendation in the Forum's recent submission to the Department of Housing, Local Government and Heritage.

CONCLUSIONS

The Water Forum is of the view that it is essential that Irish Water remains in a position to deliver on its Capital Investment plans and operational procedures to the highest standards so that they can meet all of Ireland's regulatory requirements. As stated by the Central Statistics Office and the European Central Bank, we are currently experiencing high rates of inflation and other Real Price Effects. Unlike other utilities, Irish Water is not in a position to recoup such additional costs through tariffs yet is essential that their work programme and outputs are not diminished or delayed by cost inflation. The Water Forum supports the CRU's proposals to adjust RC3 funding to account for the changes in HICP plus a specific differential inflation adjustment as this will allow Irish Water to continue to deliver their essential work programmes unimpeded. However, the Water Forum considers it essential that transparency and accountability is at the forefront of all actions particularly in relation to the redirection of ringfenced capital funding.

We would like to thank the CRU for the opportunity to participate in this consultation and hope that our views will be taken on board and are happy to engage further should any clarifications be required.

END

***Please address any correspondence to:
Donal Purcell, Senior Executive Officer,
An Fóram Uisce, Civic Offices, Limerick Road,
Nenagh, County Tipperary***