



## Submission to the Consultation on the Economic Regulatory Framework for the Public Irish Water Services Sector

### Introduction

Chambers Ireland is the largest business network in the State, with over 55 affiliated Chambers.

We believe that investment in infrastructure is an essential prerequisite for a successful economy. Water is a part of this essential infrastructure as much as other utilities such as electricity and broadband and physical infrastructure such as the transport network.

Chambers Ireland has a member Chamber in every major town and city in Ireland; therefore, we have a deep understanding of the relationship between business and local government. As control of Ireland's public water service moves out of local authority control this will no doubt have a considerable impact on our members.

There will be considerable challenges involved with the establishment of Irish Water; however, there will also be many opportunities. The establishment of a well regulated system is vital if the challenges are to be met and the opportunities are to be exploited.

Chambers Ireland is pleased to make this submission to the consultation process. We have concentrated on the questions which we feel have the greatest relevance to our members and where we have the necessary competence to comment with authority.

### **Q1. Do you agree with the proposed principles of the regulatory framework?**

At the outset it is vitally important that Government follows through on commitments to long-term subventions of minimum specific amounts for the ongoing development of Irish Water infrastructure. However, this subvention must come from sources other than the Local Property Tax, which was intended for other purposes.

Chambers Ireland broadly agrees with the proposed key principles. We fully support an approach which prioritises **stability, predictability, sustainability** and **cost efficiency**.

However, we propose that sustainability must also allow for flexibility; for example, provision for emergency planning must be included. Furthermore, cost efficiency must be more specifically quantified. Irish Water must provide a service in line with international best practice. It must support economic development in Ireland and become an engine of economic growth.

In this context both Irish Water and the Commission for Energy Regulation must be mindful of the need to meet future and unmet needs, specifically regional water infrastructure that can support new investments regionally.

Furthermore, given the amount of personnel focused on water related matters already employed in the Local Government, Irish Water should first focus on secondment/transferees *prior* to going to the market and recruiting staff externally to run its operations.

**Q2. Are there any further/alternative principles of a proper regulatory framework that the CER needs to consider / or principles that need to be removed from the list?**

Further to the principles listed, Chambers Ireland would recommend the inclusion of **accountability and transparency**. Specifically, there must be a clear framework for the handling of customer complaints. There is no indication of where business customers should address complaints if, for example, the water quality or water pressure does not meet their requirements. In this context, business community representatives such as Chambers must be given a higher priority (not just a reference in the Capital Expenditure section of this document on page 26)

CER must be mindful of the need for business customers to ‘escalate’ issues if their concerns are not being addressed.

Chambers Ireland also views **health and safety** as a key principle which ought to be embraced by the CER.

Finally, a vital principle which ensures minimum disruption in the supply of water services in the transition to Irish water is crucial. We need **continuity of service** above all else.

**Tendering**

We believe that there is scope for CER to play a role in overseeing appropriate procurement processes used by Irish Water.

Contracts focusing exclusively on ‘value for money, lowest price’ do not always deliver the best service.

They can also be used to exclude smaller firms from applying for them. In this context, we note that a recent IW pre qualification tender sought expressions of interest from firms with an average turnover of €1.25m over the past three years (if a business was applying under all categories).<sup>1</sup> This is a very high threshold in the context of the challenges that businesses have faced in recent years in Ireland.

In addition some of the appendices in the pre qualification are extraordinarily detailed with one pertaining to Health and Safety running to over 250 pages.

In our view CER should play a role in ensuring that Tenders and pre qualification tenders are set at a reasonable level that addresses key objectives of a contract, ensures these are achieved for

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<sup>1</sup> See Invitation For Pre-Qualification Questionnaire: A Multi-Supplier Framework for the provision of Minor Mechanical Electrical Instrumentation Control and Automation (MEICA) Works to Irish Water Tender Reference 13/101 Section on Financial Standing page 16

the best price, with qualification criteria that actively support SMEs to tender successfully to win contracts.

**Q3. Do you agree with the CER's assessment of each of the proposed regulatory frameworks?**

The regulatory framework adopted must, above all else, provide an infrastructure which promotes regional economic growth. Projects of strategic national importance, which do not appear to be referenced in the document, must also be a priority in the establishment of any framework.

International water service cost competitiveness is vital. Charges for business customers cannot be allowed to drift upwards over the next few years. It follows that containment must be crucial and CER can play a vital role in assuring that this remains at the top of the list of priorities for Irish Water.

Water can be a unique sales proposition (USP) per our Corporation Tax Rate. The regulatory model needs to facilitate a network that proactively addresses infrastructure needs to support regional economic development. CER and Irish water will need to proactively provide the infrastructure to meet future market needs.

**Q5. Do you agree with the CER's assessment that a revenue cap (RPI-X) framework should be put in place for the Irish water services sector?**

Chambers Ireland believes that RPI-X is an appropriate, tried and tested framework that works for other utility networks in the medium to long term.

However, it may be worthwhile reviewing the application of this framework in the short term as IW develops and delivers enhanced efficiencies that could be passed back to the customer in the initial five year period.

We believe that there is scope for Irish Water to make major savings in the early years of its creation. Its customers cannot afford to wait until a new price control period is established to harvest the results of these savings by way of price/rate cuts.

We believe that there may be opportunities in the initial years for dramatic 'windfall' efficiency gains. These should be passed back to customers rapidly.

In the steady state this may change. Otherwise these gains may not be passed on and could be 'lost' to consumers.

Finally, the opening RAB level should be set at a level that assures bond market funding for future investments.

**Q8. Do you agree with the need to introduce an interim revenue control?**

Chambers Ireland understands the rationale for an interim revenue control; however, this must be strictly time tabled with milestones to assure that full revenue control is attained in a medium term period.

Service Level Agreements (SLAs) between Local Authorities and Irish Water must not be allowed to mask any non water related costs such as 'non-core' water services staff. Thus SLAs must be continually challenged by CER to ensure that efficiencies are attained and driven into

the system with consequent pay back in terms of reduced costs for business customers. These costs cannot simply be passed through to customers.

Similarly EPA fees for licenses must be independently validated prior to being accepted.

Irish Water also needs to have the powers necessary to assure bill collection rates that compare favorably to other water companies operating in overseas jurisdictions.