



Commission for Energy Regulation
An Coimisiún um Rialáil Fuinnimh

Domestic Water Tariff Principles and Proposals

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Abstract

As part of the Government's reform of the public Irish water services system, water and wastewater charges will be introduced for domestic households from October 2014.¹ In preparation for the introduction of these charges, Irish Water has presented the Commission for Energy Regulation with its proposals for the principles and structure of domestic tariffs. The purpose of this paper is to consult on Irish Water's proposals for domestic tariffs.

Target Audience

This consultation paper is for the attention of all members of the public, the water industry and all other interested parties.

Related Documents

- CER/14/005 Information Paper on Water Consultation Plan: 2014 Timelines
- CER/14/083 Irish Water Domestic Tariff Design Principles and Proposals
- CER/14/084 Interim and Enduring Non-domestic Water Tariff Proposals Consultation Paper
- CER/14/085 Irish Water Interim and Enduring Non-Domestic Tariff Proposals
- CER/14/087 Irish Water Customer Handbook
- CER/14/086 Consultation on Irish Water Customer Handbook

Responses to this consultation should be returned by email, post or fax and marked for the attention of Sarah Foley at the CER.

The CER intends to publish all submissions received. Respondents who do not wish part of their submission to be published should mark this area clearly and separately or enclose it in an Appendix, stating the rationale for not publishing this part of their comments.

¹ Please see Department of Environment, Community and Local Government's position paper 'Reform of the water sector in Ireland' [here](#).

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1.0 Introduction

1.1 *The Commission for Energy Regulation*

The Commission for Energy Regulation (CER) is Ireland's independent energy and water regulator. The CER was established in 1999 and now has a wide range of economic, customer protection and safety responsibilities in energy and water. The CER is also the regulator of Ireland's public water and wastewater system.

The CER's primary economic responsibilities in energy cover electricity generation, electricity and gas networks, and electricity and gas supply activities. The overall aim of the CER's economic role is to protect the interests of energy customers. The CER has an important related function in customer protection by resolving complaints that customers have with energy companies.

The CER's core focus in safety is to protect lives and property across a range of areas in the energy sector. This includes safety regulation of electrical contractors, gas installers and gas pipelines. In addition the CER is the safety regulator of upstream petroleum safety extraction and exploration activities, including on-shore and off-shore gas and oil.

In 2014 the CER was appointed as Ireland's economic regulator of the Irish public water and wastewater sector. The CER's role is to protect the interests of water customers, ensure water services are delivered in a safe, secure and sustainable manner and that Irish Water operates in an economic and efficient manner.

Further information on the CER's role and relevant legislation can be found on the CER's website at www.cer.ie.

1.2 *CER Values*

The values that the CER has upheld in the electricity and gas sectors will apply for the water sector.² The CER values focus on the protection of the customer, both in the short-term and in the long-term. These values interlink and support one another.

- Regulate in a fair, transparent and consistent manner.
- Act with integrity and respect.
- Proper consultation with stakeholders and customers.
- Accountability to customers and stakeholders.
- Making informed decisions.

1.3 *The Reform of the Public Irish Water Services Sector*

The Programme for Government has embarked on a mission to reform the public water and wastewater sector with the aim of ensuring water users in Ireland a better quality of water and environment. This programme includes the creation of Irish Water (or Uisce Éireann); a publically owned national water utility. On 01 January

² CER/13/245 'CER and Water Regulation in Ireland'

2014 Irish Water assumed responsibility for the provision of public water and waste water services from 34 local authorities. Hereby, all customers connected to the public water network became customers of Irish Water.

A further central part of the Government's reform programme is the introduction of domestic water charges. The business of delivering water is expensive and requires on-going heavy capital investment. Annually, this business costs approximately €1.2bn. The introduction of water charges will provide much needed investment in the public water network as well as providing an incentive for customers to conserve the Irish water resource.

Water charges for domestic customers will commence in October 2014 with the first bills scheduled to be issued in January 2015 for usage in arrears. In this context, phase one of the national metering programme was launched by Irish Water in August 2013. Irish Water aims to install, on average, 27,000 water meters on supply pipes every month. By 2016 it is expected that the majority of Irish households will have a water meter fitted and that these households will pay water charges in proportion to their monthly consumption. In the meantime, however, a methodology for the structure of domestic water tariffs for non-metered customers must be put in place.

1.4 The Water Services (No. 2) Act 2013

On 25 December 2013 *the Water Services (No. 2) Act 2013*³ (the 'Act') was enacted by the President. This Act provides the CER a set of functions, duties and obligations in regulating the public water service sector in Ireland:

- Direct Irish Water to submit a water charges plan for review and approval. The water charges plan will specify how charges are calculated and the costs incurred by Irish Water in the performance of its functions. The CER may approve, reject or modify the water charges plan.
- Approve or refuse to approve an agreement between a customer and Irish Water for the charging of that customer for the provision of water services.
- Approve or refuse to approve codes of practice designed to secure the interests of Irish Water's customers.
- Advise the Minister for the Environment, Community and Local Government in relation to the development and delivery of water services.
- Request information from Irish Water to facilitate the CER performing its functions under the Act. Irish Water must comply with such a request as soon as practicable.

In performing its functions under the Act, the CER shall do so *"in a manner that best serves the interests of customers of Irish Water and have regard to the need to ensure*⁴ -

- a) *that the customers of Irish Water are provided with the quality of service provided for in an approved code of practice,*⁵

³ The complete Act can be accessed [here](#).

⁴ Article 39 of the 'Act'

⁵ The codes of practice will be developed from Irish Water's Customer Protection Handbook, which has been published for consultation alongside this paper and is available on the CER website.

- b) that water services are provided by Irish Water in an economical and efficient manner,*
- c) that Irish Water operates in a commercially viable manner,*
- d) the conservation of water resources,*
- e) the continuity, safety, security, and sustainability of water services,*
- f) that Irish Water can meet all reasonable demands for water both current and foreseeable,*
- g) the recovery of costs of water services in accordance with Article 9 of the EU Water Framework Directive,⁶*
- h) that Irish Water performs its functions in a manner that will enable the achievement by the State of the environmental objectives of that Directive,*
- i) that Irish Water performs its functions in an open and transparent manner.”*

The CER notes that the Minister for the Environment, Community and Local Government may issue general policy directions to the CER under Section 42 of the Act.

1.5 Water Charges Plan

Under the Act, Irish Water is required to prepare and submit a water charges plan to the CER.

A water charges plan shall specify, inter alia:

- a) the manner and method by which water charges are calculated for both metered and non-metered properties for domestic and non-domestic customers;
- b) any customer classes and associated tariffs;
- c) the costs that Irish Water is likely to incur during the period of the plan the charge for the provision of a service connection;
- d) different methods of payment.⁷

A water charges plan must be submitted to the CER along with the most recent investment plan.⁸ The CER may approve the plan with or without modifications or refuse to approve the plan.

The CER is consulting on these proposals in parallel with the proposals for non-domestic customers. The CER will consider the responses received to these consultations and publish Response Papers which will inform the decision on tariff structures within the water charges plan submitted by Irish Water. The CER will write to Irish Water in May to request a formal submission regarding its water charges plan. The CER will then consult on the water charges plan which will contain the actual level of domestic water and wastewater tariffs in June.

⁶ Adopted on 23 October 2000, the EU Water Framework Directive (WFD) sets the necessary standards for the protection and improvement of the quality of water resources in EU member states. The WFD was transposed into Irish Law in 2003. For more information on the WFD please click [here](#).

⁷ See Section 22 of Act.

⁸ Under Section 34 of the Act Irish Water must submit to the CER an investment plan setting out the investment in water services infrastructure that Irish Water considers necessary for the effective performance of its functions. When making the investment plan, Irish Water must have regard to, inter alia, regional planning guidelines, local area plans, river basin management plans under EU regulation, as well as Irish Water's 25 year strategic plan. The first investment plan will apply until the end of 2015.

Table 1 sets out the timeline for forthcoming consultation and decision papers related to the introduction of domestic and non-domestic water and wastewater charges in October 2014.

Month	Type	Paper	Areas Covered
April	Consultation	Domestic Tariff Structure (part of water charges plan)	Principles and criteria for the design of domestic tariffs
	Consultation	Interim and enduring Non-domestic Tariff (part of water charges plan)	Principles and criteria for design of non-domestic tariffs; timeline for transition of current tariffs set by LAs to IW tariffs
	Consultation	Connection Charging Policy (part of water charges plan)	Methodology to calculate connection charges
June	Consultation	Water Charges Plan	Allowed initial revenue; tariff structures and levels (domestic and non-domestic); connection charging methodology
August	Decision	Water Charges Plan	Allowed IW revenue for initial revenue period; approved level of water charges (domestic and non-domestic); connection charges methodology

Table 1 CER Consultation Timeline

Separately, the CER is publishing the Irish Water Customer Protection Handbook for consultation, which will provide guidance on the Codes of Practice that the CER requires Irish Water to put in place for its customers. The Handbook outlines the standards the CER requires Irish Water to meet in its service delivery and the CER's requirements in terms of reporting on complaints, billing and arrears issues and activities to support vulnerable customers. It is expected that a decision on customer protection will be reached and published by July.

1.6 Purpose of this Paper

The purpose of this paper is to provide interested parties with the opportunity to comment to the CER on the domestic tariff structure proposals that have been submitted by Irish Water to the CER, which will inform the water charges plan scheduled for consultation in June.

1.7 Responding to this Paper

Responses to this consultation paper must be submitted by close of business on Friday 16 May 2014 by either post or email to the addresses below:

Sarah Foley
Analyst – Water Division
Commission for Energy Regulation
The Exchange, Belgard Square North
Tallaght, Dublin 24

Email: watertariff@cer.ie

Please mark clearly the subject line or envelope: “Domestic Water Tariff Principles and Proposals”.

2.0 Irish Water's Submission

In advance of the introduction of domestic water and wastewater charges⁹, the CER has requested Irish Water to provide an initial submission on how it considers metered and unmetered domestic tariffs should be structured. This submission forms part of the CER's consultation and decision process on the water charges plan.

This section will:

- (i) list the issues Irish Water was requested to cover in its submission by the CER; and
- (ii) set out the key proposals made by Irish Water in its submission – which has been published in parallel with this paper.¹⁰

As set out in legislation¹¹ the CER is required to review the water charges plan and either approve, approve with modifications or reject it. Before making a decision on the domestic tariff structures that Irish Water must put in place the CER is interested in receiving comments from all members of the public and stakeholders in the water industry on Irish Water's proposals.

It should be noted that decisions regarding social policy on water is the responsibility of the Government. The CER will ensure that any decisions made by Government on affordability measures, free allowances or first fix policies will be incorporated into the tariff structure once decided.

2.1 CER requirements for IW's submission

Having reviewed different tariff regimes across European states and member countries of the Organisation for Economic Co-operation and Development (OECD), it is evident that tariffs can be structured in multiple ways depending on the objective of the tariff. Across Europe, charges may be national, regional or local, may have one, two or multiple components, be based on a flat charge, a rising block tariff or a single volumetric charge depending on the country in question.

In light of this tariff variety, the CER has required Irish Water to address a number of issues when preparing its proposals for domestic tariff principles and structures in the Irish context. In addition, Irish Water was required to look at tariff regimes already in place and draw on the lessons learned in other jurisdictions. Outlined below are a summary of the CER's requirements.

Generally for the development of domestic tariffs, Irish Water was required to outline to the CER its proposals in relation to:

- A set of principles to guide the design of domestic tariffs as well as justification for any trade-offs or deviation from these different principles;
- Any constraints to developing an optimal set of charges as well as a plan for addressing such constraints;
- The services that Irish Water expects to provide and charge for; and

⁹ Irish Water will provide customers with multiple services: drinking water (water in), wastewater (water out), and a combination of the above. Different customers will use different services and be charged accordingly.

¹⁰ See CER/14/083

¹¹ Article 22(8) of the 'Act'

- A definition of customer classes and their associated tariff structure.

For those domestic customers who will have a meter installed prior to the commencement of water charges in October 2014, Irish Water was requested to:

- Evaluate all tariff structure options against Irish Water's proposed key principles;
- Set out the constituent elements of the tariff;
- Consider the effect of different tariff elements and structures on water consumption and customer bills;
- Analyse the likely distributional impacts of proposed tariff structure for different sets of customers;
- Consider the possibility for social tariffs to address any unacceptable distributional effects;
- Consider the merits of regional versus national varying tariffs;
- Justify any variation in tariffs for different service levels; and
- Determine the allocation of costs between water and wastewater services.

A significant group of customers will, nonetheless, not have a meter fitted by October 2014. Irish Water was therefore requested to consider carefully how to structure tariffs for unmetered households. Specifically, Irish Water was requested to include in its submission:

- An evaluation of all proposed unmetered tariff options against Irish Water's key principles;
- An analysis of the distributional impact on different customer types of the proposed unmetered charge;
- A plan for the collection and validation of any data intended for the unmetered charge;
- Tariff options for properties unlikely to ever be metered; and
- The planned phases for the national meter installation programme.

Similarly, a large customer group will transfer from an unmetered to a metered charge during the initial two year period from October 2014 to the end of 2016. In order to secure a smooth transition from an unmetered to a metered charge, Irish Water was requested to set out:

- The management of the transition from unmetered to metered bills;
- Further actions to be undertaken to develop tariffs; and
- Plans to be taken to promote bill acceptability.

2.2 Irish Water's Key Proposals

In its proposal, Irish Water outlines what it considers to be the key design issues and the trade-offs that may arise from certain tariff design choices. The submission represents the view of Irish Water. The submission sets out proposals, which can be summarised into five main categories:

- a) Key objectives and principles for domestic tariffs;
- b) Customer engagement;
- c) General tariff framework;
- d) Unmetered tariff framework;

- e) Metered tariff framework.

This section will summarise Irish Water's key proposals under each of the categories above.

2.2.1 Key objectives and principles

As set out by Irish Water its objective is to “*introduce tariffs that are consistent with Government policy and the regulatory criteria as determined by the CER*”.¹² With this objective in mind, Irish Water proposes the following six key principles to guide the design of domestic water charges:

- 1) *Equity and non-discrimination*: Tariffs should be equitable, non-discriminatory and acceptable to customers.
- 2) *Efficiency in use of water services*: Tariffs should incentivise the efficient use of water.
- 3) *Cost reflectivity*: Tariffs should be reflective of the costs of providing different services.
- 4) *Cost recovery*: Tariffs should provide for cost recovery to allow Irish Water fund essential water infrastructure development in Ireland.
- 5) *Stability*: Tariffs should be designed to ensure significant annual tariff charges and bill volatility are kept to a minimum.
- 6) *Simplicity*: Tariffs should be clear, transparent and easy to understand.

2.2.2 Customer engagement

A key challenge for Irish Water regarding the introduction of domestic charges will be customer acceptability. For this reason, Irish Water outlines that it intends to engage directly with its customer base. Specifically, Irish Water proposes to:

- Execute a multichannel campaign to communicate key messages to customers, address their concerns and increase acceptance of water charges.
- Contact every customer prior to the introduction of charges to provide information and to list payment options.
- Launch a campaign in autumn 2014 requesting customers to validate information relating to their property architecture type or occupancy as may be required for assessment, allowances or affordability measures.
- Request information necessary for the billing of customers.
- Bill customers on a quarterly basis with the first bills scheduled to be issued in January 2015.
- Bill the owner of a property unless otherwise notified.

2.2.3 General tariff framework

When developing a tariff methodology for domestic charges, Irish Water considers a number of elements to be common to both the metered and unmetered tariffs. In relation to common elements of both tariff frameworks, Irish Water proposes to:

- Introduce a national tariff for domestic customers;

¹² See page 10 of Irish Water's submission published alongside this document.

- Implement a two-part tariff comprising of a fixed (standing) element and a single volumetric rate, with the standing charge, on average, accounting for 33% of the tariff¹³;
- Reduce the volumetric rate paid by customers serviced by water unfit for human consumption, for example in cases of boil water notices;
- Split charges between water and wastewater in a cost reflective manner;
- Adopt the same tariff structure for wastewater as for water;
- Calculate the charge for wastewater based on metered/assessed water usage;
- Incorporate any decisions made by the Government on free allowances and social protection measures into the tariff methodology.

Irish Water additionally proposes that mixed use customers (those customers with a shared supply comprising domestic and non-domestic use) should not be charged for the domestic component of their water usage until the scheduled completion of the non-domestic customer migration project in January 2015.¹⁴

2.2.4 Unmetered tariff framework

Irish Water is currently rolling out a national metering programme and aims to install, on average, 27,000 domestic water meters monthly. At the time of the introduction domestic water charges in October 2014 not all households will, however, have had a meter installed. It is furthermore likely that a sub-set of customers will remain unmetered permanently if a meter cannot be installed at their property. For the calculation of the unmetered tariffs applicable to these households, Irish Water proposes to:

- Base the unmetered volumetric charge element on an assessment of consumption
- Apply a combination of the property architecture type and occupancy level to assess the household consumption
- Launch a customer validation campaign to validate occupancy status, property architectural type, water service use and service type to inform the assessed charge
- Review the methodology to calculate assessed charges upon completion of the metering installation programme in 2016
- Implement an assessed tariff model with four consumption points (option 3 below¹⁵) with a separate consumption band for single and unoccupied households:

¹³ Irish Water proposes that the standing charge should account for 33% of the average bill for both domestic water and wastewater services. Depending on the volume of water that is consumed by individual customers the standing charge may represent a greater or lower proportion of the overall bill.

¹⁴ Please see section 2.2.1 *Interim Tariffing Arrangements* in CER/14/084 'Interim and Enduring Non-domestic Water Tariff Proposals Consultation Paper'

¹⁵ Option 3 contains four consumption bands which would be calculated into four different tariffs. The first band would apply to all unoccupied or single person households in any property type. The second band would apply to households with more than one person living in a small property architectural type, while the third band would be for households with more than one person in a medium size property architectural type. The fourth band would apply to large property architectural types with more than one occupant.

		Architecture Type		
		Small	Medium	Large
Occupancy	Small 0 - 1	Consumption 1		
	Not Small > 1	Consumption 2	Consumption 3	Consumption 4

- In order to ensure a smooth transition from assessed to metered charges, Irish Water furthermore proposes to allow customers to cap initial metered bills at the assessed charging level for a period of 6-12 months from the installation of the meter

2.2.5 Metered tariff framework

For those households that either have a meter fitted to their supply pipe prior to the commencement of water charges in October 2014 or will during phase one¹⁶ of the national metering programme, Irish Water proposes to:

- Introduce a volumetric charge based on metered water consumption
- Set a fixed (standing) charge component at a 33% average for both water and wastewater charges
- Charge customers in accordance with metered consumption from the start of the next billing period following the installation of a meter

¹⁶ Phase one of the national metering programme commenced in August 2013. By 2016 it is expected that the majority of Irish households will have a meter installed.

3.0 Views Sought

In its role as economic regulator of Irish Water, the CER now seeks the views of the public and all interested parties on the proposals for domestic tariff principles and structures put forward by Irish Water. The CER will review all responses which will inform the CER's view on appropriate tariff principles and structures, which will form part of the water charges plan that Irish Water must submit for approval.

Below, the CER has outlined a number of specific aspects of the proposals that it is particularly interested in receiving comments on. For the purpose of reviewing submissions in an efficient manner, it would be helpful if respondents could format their responses to answer the questions posed. Additional commentary or supporting data from respondents is also welcome.

General Tariff Framework

Q1: Do you consider the principles for domestic tariff design proposed by Irish Water, and any proposed trade-off of these principles, form a suitable basis for the design of domestic tariffs? If not, please explain why citing any additional or alternative approaches that should be considered.

Q2: Do you agree with Irish Water's assessment that a national tariff regime should be introduced? If not, please explain why citing any alternative approaches to this issue which you consider to be more appropriate.

Q3: Do you agree with Irish Water's proposal to reduce the volumetric rate for households whose water supply is not fit for human consumption? If not, please explain why citing any alternative approaches to this issue which you consider to be more appropriate.

Q4: Can you think of other circumstances where a tariff reduction should be considered? Please explain your answer.

Q5: Do you agree with Irish Water's assessment that a standing charge averaging 33% should be introduced for unmetered and metered customers? If not, please explain why citing any alternative approaches to this issue which you consider to be more appropriate.

Q6: Do you agree with Irish Water's proposal that wastewater should adopt the same tariff structure as water and that charges should be split between water and wastewater in a cost-reflective manner? If not, please explain why citing any alternative approaches that you consider to be more appropriate.

Q7: Do you agree with Irish Water's proposal that mixed use customers will not be charged for domestic water usage until the completion of the non-domestic data migration project? Please explain your answer citing any alternative approaches to this issue which you consider more appropriate.

Q8: Do you agree with Irish Water's proposal to bill its customers quarterly. If not, please explain why citing your preferred billing frequency.

Unmetered Tariff Framework

Q9: What are your views on the proposed charge for unmetered households?

Q10: Do you agree with Irish Water's proposed multi-factor approach to inform an assessed charge? If not, please explain why citing any alternative approach you consider to be more appropriate. If yes, which of the proposed four models (if any) do you consider most appropriate for unmetered households? Please explain your answer.

Q11: Do you agree with Irish Water's proposal to introduce optional bill caps for households moving from an unmetered to a metered charge? If yes, do you agree with the proposed timeframe of 6-12 months? If not, please explain why citing any alternative approaches to this issues which you consider to be more appropriate.

Metered Tariff Framework

Q12: What are your views on the proposed charge for metered households?

Q13: Do you agree with Irish Water's proposal to introduce a two-part tariff structure consisting of a fixed (standing) element and a volumetric component? Please detail.

Further Suggestions

Q14: Do you have any other suggestions for improving upon Irish Water's proposals? Please explain how your proposals improve those put forward by Irish Water.

Q15: Are there any other transitional arrangements that you believe should be considered to ease the introduction of charges/the transition from one tariff regime to another for both unmetered and metered households? Please explain your answer.

4.0 Next Steps

All submissions to this consultation process must be received by close of business on Friday 16th May 2014.

Based on the CER review of the proposed tariff structures, Irish Water will develop and submit its proposed water charges plan, which the CER intends to publish for public consultation in June 2014.

The CER will have reached and published a decision on the level of domestic tariffs by August 2014.

Following the decision on domestic tariff levels and prior to the introduction of tariffs in October 2014, Irish Water will launch a direct customer communication campaign during which domestic households will receive information on tariffs and the level of charges applicable, as well as payment options. This campaign will be developed in line with the provisions specified in the Customer Protection Handbook published by the CER.