Dear Sir/Madam

RE: Utility Regulator response to ‘Reform of the water sector in Ireland’ Position Paper January 2012

1. The Utility Regulator (UR) is the independent non-ministerial government department responsible for regulating the electricity, gas, water and sewerage industries in Northern Ireland. We therefore are equivalent to the recommended economic regulatory body the document is proposing, for the current Commission for Energy Regulation in the ROI. Similarly the UR morphed from regulating only the energy sector with the reform of the Water Industry in NI. We consequently read with interest your document and thought it beneficial to share some views and experiences.

2. In broad terms we observe based on the information provided that the implementation plan appears reasonable though the timeframe is challenging. We observe from experience that the aim of a single public utility is the most appropriate model to deliver efficiencies and a co-ordinated capital programme based on national Water Resource Management Plan as well as an Asset Management Plan. The water industry is a capital intensive industry where funding decisions have long term consequences. It is therefore important that investment is directed to the right areas. We observe that it is important that some initial investment is directed into improving data quality which supports the appropriate targeting of investment. A critical area is the security of supply and interconnection of the network, given water shortages in the Dublin area, married with the level of leakage both of which support the development of a comprehensive Water Resource Management Plan. This may be particularly important given the more frequent occurrence of extreme weather conditions such as we experienced last winter and which England and Wales are currently experiencing with water shortages predicted this summer.

3. We note in the review of relevant models reference to a multi-agency approach and the assessment of the potential role for an existing state agency. There seems to be an initial attraction to this model in terms of speed of delivery however we would observe and agree with the many disadvantages identified, which might negate any early advantages in the
long term. It is our perception that there are both industry technical issues as well as major cultural and management change programmes to be addressed; we would agree that any partner organisation should be experienced in managing utilities with an emphasis on managing utilities in the water industry.

4. We note in your consultation document the advancement of the proposed strategic water supply from the Shannon to the Greater Dublin Area and the significant cost of this alongside the high levels of leakage. While acknowledging that security of supply is critical for the capital city of Dublin it would be important that the new company Irish Water were bought into the current envisaged solution.

5. We note the overall rationale for a water metering programme, which is the fairest way to charge and also supports sustainability objectives and potentially incentivise domestic consumers to use water efficiently. We consider that should a metering programme be implemented that it is likely to be more cost effective if done on a universal basis. It is not clear who carries the cost for the initial metering programme. It is understood that further work needs to be undertaken on affordability issues and we would be happy to provide any information on the original proposals for dealing with affordability in Northern Ireland, albeit they have not been tested in action given the decision not to introduce domestic water charges in Northern Ireland. We note the concept of providing a 'basic allowance'. We would highlight that in N.I. Roads Drainage costs are not passed onto the domestic consumer but recovered from the appropriate Roads Authority.

6. There are a number of observations from our experiences having been appointed to set up an economic regulatory regime from the day NI Water was formed on the 1st April 2007, namely:-

a. Prior to our appointment, the existing Water Service, the Department and quality regulators developed a Strategic Business Plan for the first three years of the new company, NI Waters, existence. While an important step, it was unfortunate that the UR was not involved in its determination, as this resulted in the UR revisiting a number of areas to establish a clear baseline for monitoring delivery; to assess efficiency benchmarks and targets, and to establishment clarity between investment and outputs. The need for the UR to do this retrospectively was not helpful to relationships.

b. Data availability, quality and reliability have been found to be a major area of concern with all water reforms in England and Wales, in Scotland and in Northern Ireland. This is an important fact to recognise and an important area for the economic regulator to consider, to identify key data, fund the development of systems and identify key data sets.
c. Benchmarking of performance is key to the delivery of efficiencies and customer service levels. It is beneficial for the economic regulator to be engaged early to focus on data quality in order to establish a baseline for current levels of performance and set targets for achievement.

d. The independence of the economic regulator is crucial as they have a responsibility not only to today's consumers but also to the next generation and are tasked with achieving this while also ensuring the company are adequately funded to finance their functions.

7. Despite the absence of decisions around the introduction of water charges and hence uncertainties around the funding of NI Water, much progress has been made in the short period since the introduction of economic regulation. Through the economic regulatory price control process for the period 2010 – 2013, a saving of £91m is on target for delivery by NI Water as determined by the UR. NI Water have also closed their operating efficiency gap with the English, Welsh and Scottish Water companies from 49% to 39%. A significant gap still remains with NI Water spending £1.64 for every £1 spend by the frontier UK water companies. At the same time as reducing the operational efficiency gap service to consumers have improved with the Overall Performance Assessment Score moving from 98 in 2007/08 to 131 in 2010/11. This reinforces the decision to reform the ROI water industry where with 34 existing water authorities even greater efficiency can be delivered.

8. In Appendix 7 we note the statement that 'the cost to NI Water of providing services to 795,000 households of £330 per household'. This analysis is not date referenced, updated figures as published in our Tariff Report for 2011/12, are that the average notional domestic charge in 2011/12 is £410 for approximately 672,000 households.

We will observe with interest the further development of the reform of the Water Industry in the ROI. We recognise the need for reform and fully support proposals to ensure this occurs. We have been pleased to share our experiences with the different sectors involved in the ROI and leave our door open for further discussion which you may find beneficial.

Yours faithfully

[Signature]
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