

How Economic Regulation helps deliver Efficient Investment and Operations

10th October 2019

Economic Regulation and Investment

1. What is the CRU's Role?
2. How does a Revenue Control Work?
3. CRU's Revenue Control 3 proposal and next steps

1. What is CRU's Role?

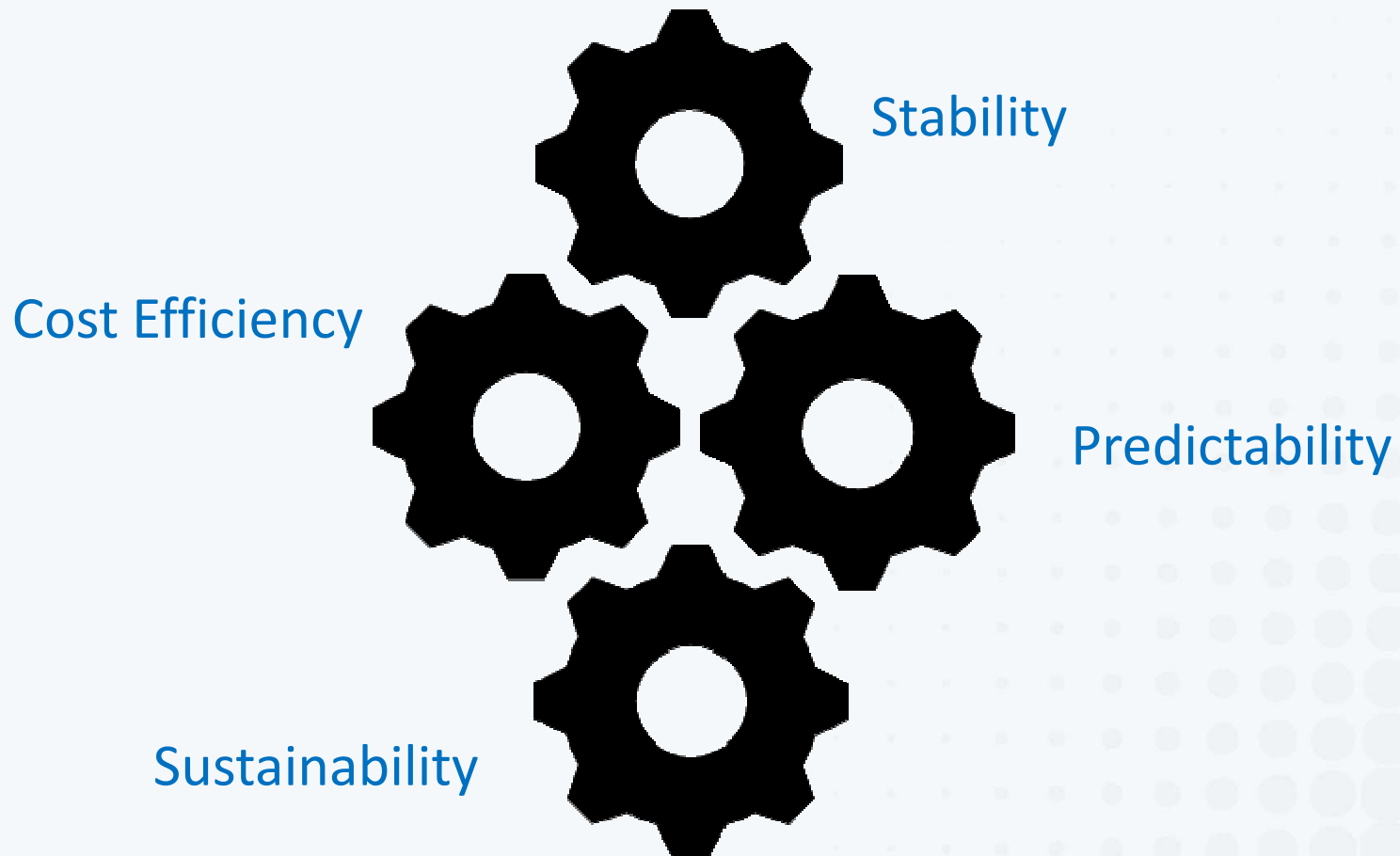
CRU Role

Objectives

- Protect the interests of consumers
- Decisions are consistent with legislation
- There are sufficient financial resources available to deliver on commitments
- Irish Water investment plans provide value for money
- Irish Water have appropriate incentives to improve efficiency
- Intervention by the CRU into the business of Irish Water is kept to a minimum

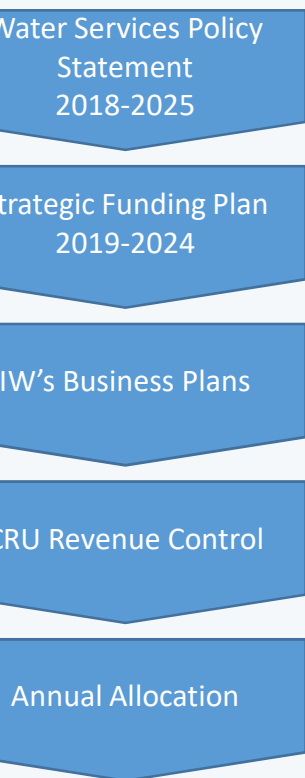
CRU Role

Key Principles of Economic Regulation



How Irish Water Is Funded?

Funding Model



- Prepared by Minister, policy objectives/priorities (May 18)
- Prepared by IW, €11bn, approved by Minister (Nov 18)
- Prepared by IW includes outputs/costs (Nov 18)
- CRU approves IW revenue for 5 years, efficiency challenges (Oct 19)
- Annual funding provided to IW – Government Subvention + Charges

CRU holds IW to account on achieving delivery and efficiency

2. How does a Revenue Control work?

What is a Revenue Control?

Key Tool of Economic Regulation

■ Revenue Control:

- Establish delivery obligations
- Set the amount of money (allowed revenue) IW can recover
- Period of time (revenue control period)

■ Purpose:

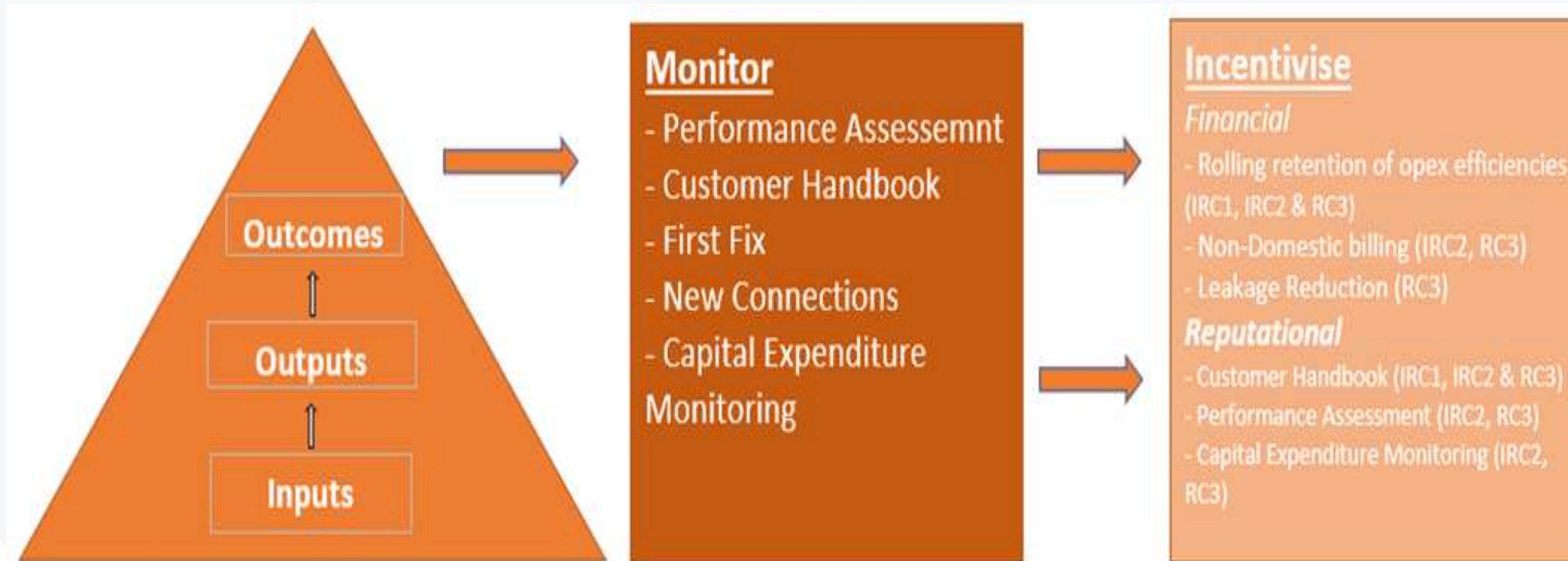
- Balances operational/capital costs at efficient levels
- Ensuring IW has sufficient funding to deliver services

■ Revenue control decides:

- Operating costs (i.e. day-to-day running of IW, e.g. fixing leaks, maintenance to network)
- Capital expenditure (new infrastructure, major projects)
- Incentives and monitoring of performance

Revenue Control Steps

Inputs, Outputs, Outcomes, Monitor, Incentivise



Revenue Control Steps

Inputs, Outputs & Outcomes

Inputs

- Capital Expenditure
- Operating Expenditure

Outputs

- Generally tangible infrastructure – above ground or below ground
- Required to meet outcomes

Outcomes

- Generally quality of service related, e.g.: number of people on boil-water notices; number of properties at risk of non-compliance with water quality standards; level of leakage
- Benefits consumers or the environment

Evaluating the Capital Investment Plan

What's the plan?

Does the Capital Investment Plan Deliver

- The right Measurable Outputs/outcomes?
- The right mix of projects and programmes to achieve outcomes?
- Is the Capital investment plan deliverable within the planned timeframe?
- Do certain large scale projects need to be treated differently because of their scale and overall impact on the plan?

CRU sets efficiency challenges & IW operates within these financial parameters

3. CRU Revenue Control 3 Proposals & Next Steps

CRU's Revenue Control 3 Proposals

Evaluating Capital Expenditure

Network capex - 3% p.a. efficiency challenge on non-committed network capex (i.e. €303m cut)

Non-network capex - Efficiency challenge & contingency reductions on projects (i.e. €47m cut)

Provide allowance for capital Real Price Effect/Construction Price Inflation (subject to SFP cap)

Major Projects - Expenditure for WSP and GDD of €846m allowed, subject to monitoring by CRU

CRU proposes allowance of €5,164m

Overall reduction of €93m compared to IW's submission

CRU's Revenue Control 3 Proposals

Evaluating Operating Expenditure

Controllable vs Un-controllable

- IW costs benchmarked against other utilities
- IW costs higher on than comparators (pop served & functional) are higher than all comparators
- Takes account of cost drivers (population served, length of network, no. of treatment plants etc, labor costs)
- IW has scope to reduce its costs over the 5 year period

Irish Water Operating Costs Efficiency Targets					
	2020	2021	2022	2023	2024
Efficiency Target	2%	2%	4%	6%	6%

CRU's Revenue Control 3 Proposals

Overview of CRU Proposal & Next Steps

CRU Proposed Allowed Expenditure €m, real 2017						
	2020	2021	2022	2023	2024	Total
IW Request & CRU allowance	€m	€m	€m	€m	€m	€m
Irish Water Request						
Operating Costs	745	750	752	743	728	3,719
Capital Costs	910	894	1,000	1,178	1,276	5,258
Total Irish Water Request	1,655	1,644	1,752	1,921	2,004	8,977
CRU Allowance						
Operating Costs	723	710	684	646	611	3,373
Capital Costs	910	884	980	1,151	1,240	5,164
Total CRU Allowance	1,633	1,594	1,663	1,797	1,850	8,537
Irish Water Request -v- CRU Allowance	- 22	- 50	- 88	- 124	- 154	- 439

- Consultation closed 11th September, decision to be published end October 2019