


Irish Water

Building a New Public Utility



Presentation to Engineers Ireland –
Cork Annual Seminar
20th March 2013

Government policy on water reform

- In April, the Government announced reform of public water services. There are three elements to this:
 1. The creation of a public water utility, Irish Water, which will take over responsibility for delivering public water and waste water services from the Local Authorities
 2. The appointment of a new economic regulator for the public water sector. The CER will be responsible for determining the cost of water services to the consumer
 3. A new funding regime based on domestic water charges and raising capital on international markets, so that in the future, Irish Water will be financially self-sustaining
- These measures represent one the most ambitious reform programmes undertaken in the history of the State

Why Bord Gáis



- DECLG conducted a process to assess the benefits of setting up Irish Water within an existing semi-state company versus new state company from green field
- Bord Gáis participated in a process where we outlined our skills and experience and track record as a successful utility provider, which include –
 - Extensive experience of operating a full scale national utility service
 - A track record of delivery of large scale capital projects
 - Ongoing delivery of quality services to customers in a regulated environment
 - Extensive expertise raising finance on international markets
 - Implementation of change and transformation programmes
- **Bord Gáis' skills combined with the Local Authorities' expertise and experience delivering water services will create a world class national water authority**
- Irish Water will be a wholly owned public utility

Why change is needed

- **Exchequer unable to support necessary level of investment**
 - New funding model needed: revenue collection & access to international finance
- **Cyclical nature of investment cycle**
 - Ageing infrastructure, infrastructural weaknesses, capacity strains, leakage rates, future demands
- **Current system lacks economies of scale**
 - Higher operational costs vs. international comparisons
- **Variation of standards**
 - Quality standards and system reliability varies throughout the country, investment skewed in favour of wastewater in last decade
- **County & city based approach**
 - Lacks nationwide planning approach (Lacks Strategic national approach to development planning and water resources management)
- **Regulatory requirements**
 - Significant investment needed to implement onerous EU legislation

Customer insights



- In late 2012, IW undertook market research to inform its customer strategy
- *Key insights:*
 - There is a **lack of understanding of the holistic role and value of water** in terms of quantity, water cycle, history, cost, contribution to the economy
 - There is **general awareness** of issues driving the need for **water reform**
 - There is **recognition of the need for investment** now and for the future
 - There is an underlying belief that reform is being driven by the State's financial predicament – rather than the need for reform
 - **Accountability, cost effectiveness and efficiency** are of paramount importance
 - There is a desire for **clear, simple and honest communication.**
 - **Water charges** are seen as inevitable and are likely to be more **acceptable if perceived to be fair and equitable**
 - People support metering as it **gives them an opportunity to control consumption and manage costs**
- These insights will be the building block of IW's public communications



Customer Satisfaction, Loyalty & Effort

Customer Satisfaction

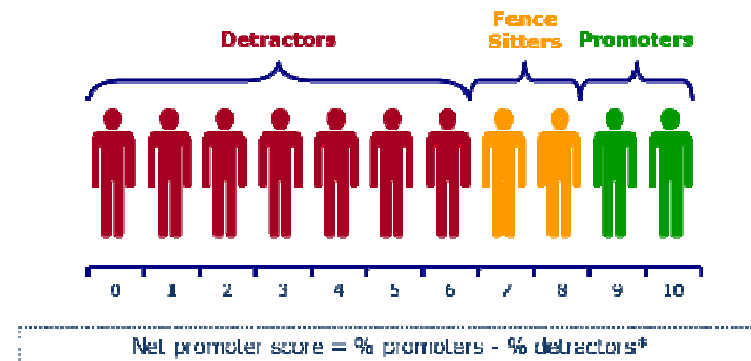
	2010	2011	06/2012
Surveys Required Under Licence			
Mystery Shopper Calls	95%	94%	95% ↑
Customer Callbacks	95%	92%	96% ↑
Voluntary Surveys			
Field Operations	87%	83%	88% ↑
Complaint Handling	70%	66%	65% ↓
PRE Response	94%	97%	94% ↓

Net Promoter Score

'How' likely would you be to recommend friend or colleague?'

Net Promoter Score

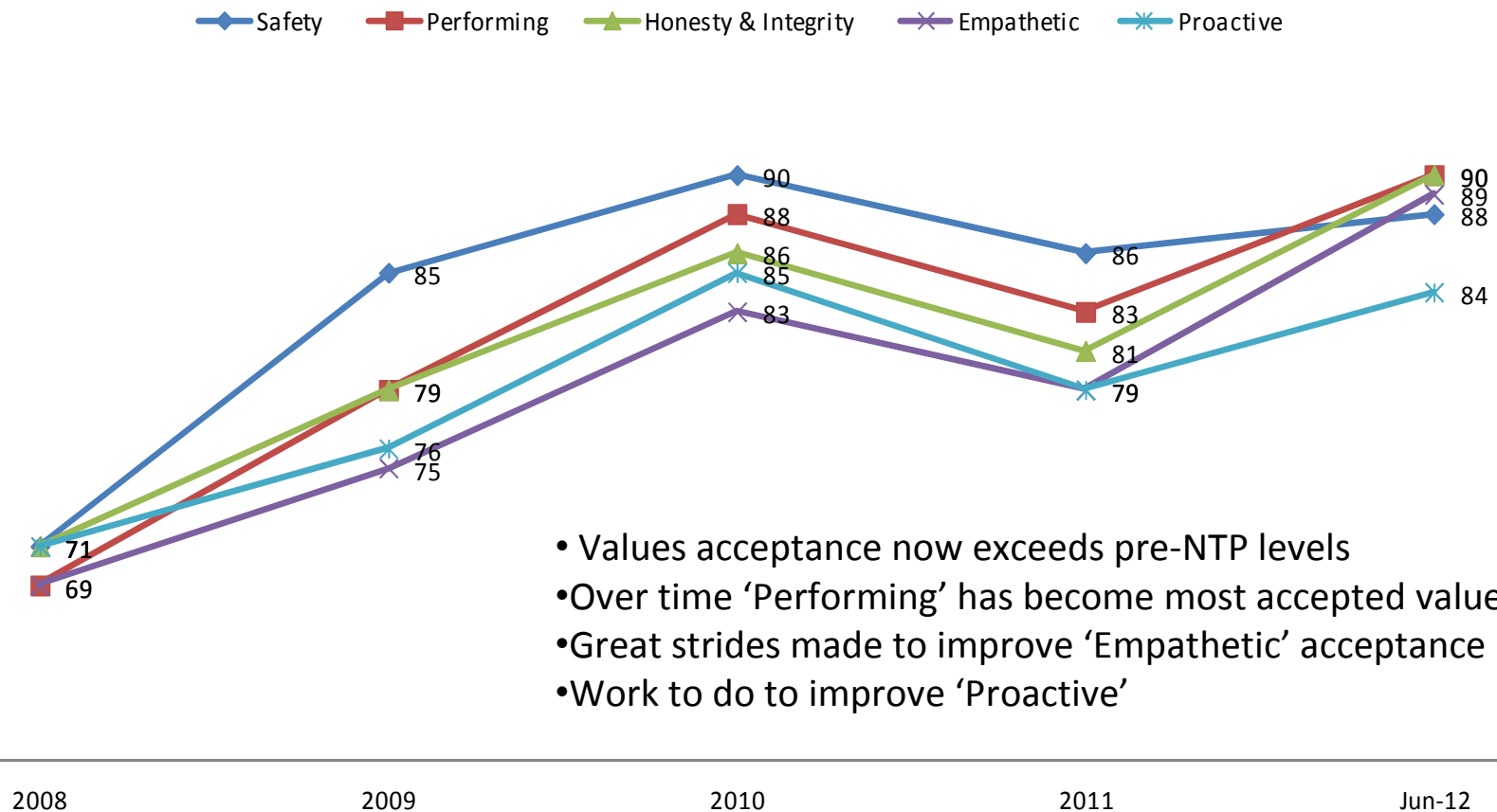
	2011	BGN to a 06/2012
Callbacks	41	29 ↓
Field Operations	39	40 ↑
Complainants	11	18 ↑
PRE Response	62	64 ↑



Networks Values Acceptance



Values Acceptance 2008 -2012



Project Overviews

The Irish Water programme has been divided into five key sub programmes of activity. Each sub programme has a number of projects within it.

Programme Management

Programme Management is responsible for running the overall programme, establishing the governance model, managing the PMO office, engaging with key internal and external stakeholders and providing guidance and direction to the rest of the sub programmes.

Company Establishment

Company Establishment is responsible for all projects focused on the frameworks that need to be in place to establish Irish Water as a company. The projects included here include: Finance, Governance Regulation & Industry Model, Due Diligence, Commercial & SLA Approach, and Customer Engagement & Brand Management, and Facilities

Business Capability Establishment

Business Capability establishment is focused on the delivery of the capabilities (people, processes, systems & data) that are required for a water utility to effectively deliver a service to their customers. This following projects are included here: Customer Capability, Work & Asset Management, Support Services and IT Infrastructure

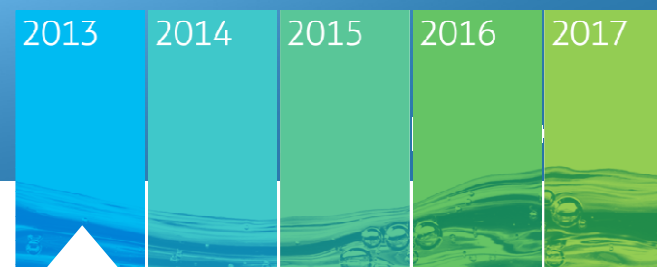
Organisation Establishment

Organisation Establishment is responsible for all projects that relate to the people elements of the organisation. It includes the following projects: Organisation Design & Development, Employee Relations, Transition & Integration and Pensions

Irish Water Functions Establishment

Irish Water Functions establishment is responsible for establishing strategic functions which must delivered as part of the programme for the enduring organisation. It includes: Metering, Capital Investment Programme, Delivery of Efficiencies, and Strategic Plan for Irish Water

Update on Irish Water Programme 2013

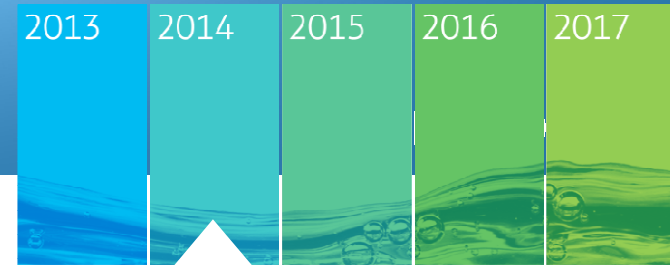


By end 2013

IW Management team in place including secondees from LAs	Fact finding substantially complete
Finance model developed	Local Authority surveys complete
Primary legislation enacted	Government decision on 'go live' date for domestic billing
Tariff confirmed & regulatory model agreed	Government decisions on policy issues (e.g. allowances)
Meter programme underway – 27k per month	National wide public communications campaign underway
Call centre is live – c400 roles in Ireland	160,000 meters installed

Irish Water Programme milestones

2014



In 2014

Irish Water becomes operational

Billing system ready from 1 Jan 2014 – Government decision on exact date awaited.

Assets transfer to IW

IW responsible for capital planning

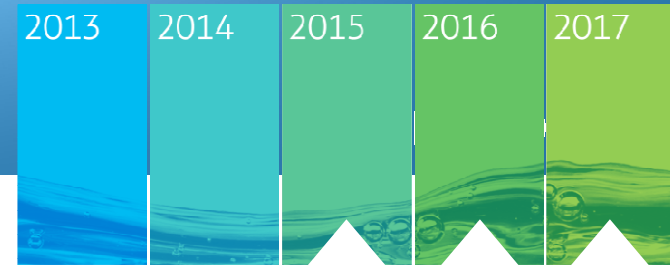
Service Level Agreements in place with LAs

Transfer of non-domestic billing will have started

480,000 meters installed

Irish Water Programme milestones

2015 – 2017



By end 2015

IW is functionally operational – assets, operations, planning, capital projects, staffing

Fund raising on capital markets has begun

800,000 meters installed

By end 2016

Meter programme ends: +1 million meters installed

By end 2017

End state

Interim Legislation: Water Services Bill 2013

- From end March, Bord Gáis will have the legal responsibility to:
 - **Establish a new company Irish Water/ Uisce Éireann**
 - **Install water meters**
 - **Seek information from relevant parties to establish a customer database**
 - *Make and fix charges for domestic water services (Subject to commencement)*
- In addition, the bill gives the CER the following powers:
 - To prepare to take on a regulatory role in water similar to energy
 - To advise the Minister of water regulatory matters
- Primary legislation will be enacted in late 2013 to give Irish Water full powers to act as a national water authority

Target Operating Model (TOM) Design

The Target Operating Model (TOM) design phase is now substantially complete.

The TOM takes the Irish Water “blueprint” to the next level of detail, and defines how people, technology, processes and governance will interact together.

The TOM includes:

- Guiding Principles – *the foundation for our structuring of Irish Water*
- Business Function Definition – *what Irish Water will do*
- Business Processes – *how we will do it*
- Organisation Structures – *who does it and where they will be located*
- Organisation Governance Model – *how we will control and monitor our activity*

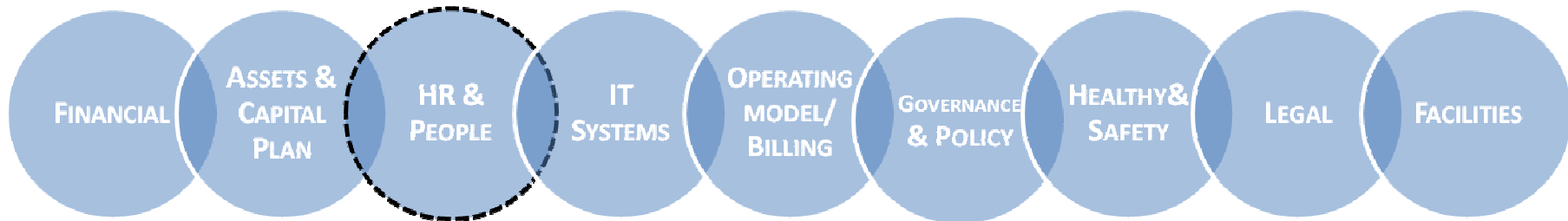
•The TOM will design both the end state Irish Water organisation and also how the organisation will operate at each key milestone throughout the establishment programme

•We have engaged with internal and external stakeholders and industry experts to develop the TOM for Irish Water, including representatives from Local Authorities and the DECLG.

- IW is working with the Transition Office to complete a comprehensive fact finding exercise of how water services are currently provided
- The data collected is vital to enable **detailed analysis, planning and informed decision-making** as IW takes over capital planning, management of assets and raising finance
- This process will involve a complex flow of information on 9 distinct topics from 34 Local Authorities to the Transition Office, who are facilitating this exercise for IW



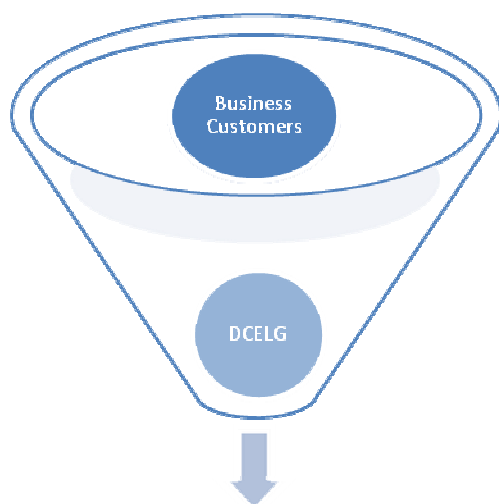
- The data collected is vital to enable **detailed analysis, planning and informed decision-making**. It will also **de-risk** the transition and ensure **continuity**
- Areas in scope for fact finding:



- Data on HR & People is an immediate priority to inform the Operating Model
 - Enables decision making on IW's regional structure to align with [existing LA water services staff when designing SLAs] ??
 - Ensures the design of IW's Operating Model accurately reflects competences within LAs
- Transition Office has key role to play in delivering fact finding
- Transition arrangements must also be supported by ongoing engagement between IWP HR & LA HR representatives

Funding and Funding Migration – Water Services

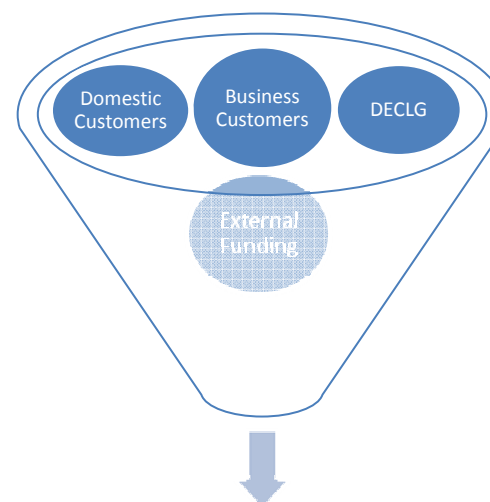
Existing Funding Structure



Water Services

Funding today provided by a combination of central exchequer and business customers

Proposed Funding Structure

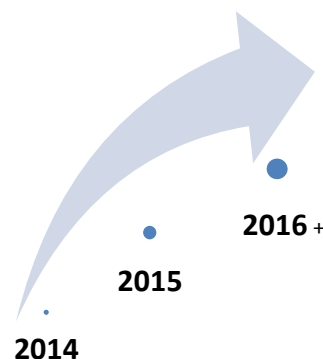


Water Services

Funding in the future from a more diverse range of funding sources

.... key requirements:

- Asset Base (RAV)
- Economic Regulatory structure
- Predicable revenue stream
- Credit rating



Challenges in Funding

To fully realise its potential to reduce industry funding costs, Bord Gáis Éireann needs the co-operation of the Local Authorities to manage the uncertainty and risk

Significant new funding requirements

- Significant capital investment in the water industry is required over the next few years
- To transition funding away from the taxpayer, financing must be raised from private investors

High level of uncertainty for investors

- As a new enterprise Irish Water carries a high level of uncertainty for investors:
 - Level of required capex is not fully known
 - Cashflows from domestic billing may be volatile in initial period
 - No view on future replacement cost liabilities can be made as the current water and wastewater asset base is not understood

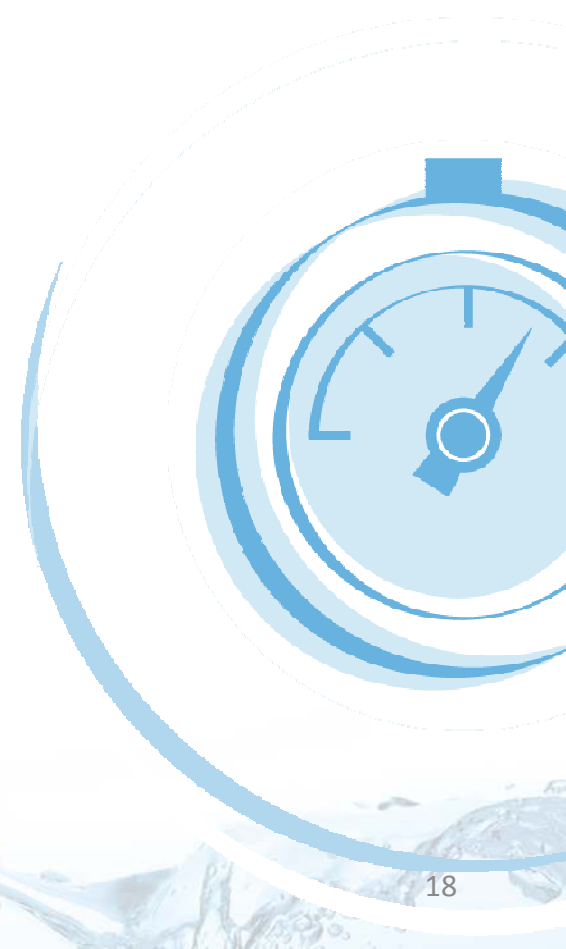
Higher water charges

- The greater the uncertainty carried within an investment, the higher the cost of borrowing the capital needed
- This raises water charges for everyone

With its Energy and Networks background BGÉ has a **proven track record of securing private sector funding** against Utility operations

However to minimise the financing costs for Irish Water and subsequent water bill increases, it is critical that we work closely with the Local Authorities to **reduce the uncertainty and financing risk**

- **Roll out of national meter programme:**
 - July 2013 to Dec 2016
 - 1.05 million meters – (circa 27,000 meters per month)
 - Meters fitted with radio units to enable digital meter reading
 - Scale unprecedented – Thames Water
 - Overall costs estimated at €450 million (Pre-tender)
- IW is committed to retaining existing commercial meters
- **Job creation on nationwide basis:**
 - 25% of contractors workforce drawn from SMEs, Individuals on unemployment register, apprentices, graduates or school leavers



Stages of metering programme



Stages	Activity
Local Authority Surveys Ongoing	To determine where the boundary boxes and meters will go
Appoint Boundary box, fitting and meter meter suppliers May	European wide process to appoint up to 3 suppliers Meters to common specification
Appoint regional management contractors May 2013	Min of 3, max of 8 – to manage workflows, quality, logistics & labour
Meter training May	Solas (Fas) accredited training
Meter Installations start July	End 2013: 160,000 meters End 2014: 480,000 meters End 2015: 800,000 meters End 2016: + 1.05million meters
Communications Ongoing	Information pack for every home & call centre available Installers will carry accreditation and wear branded uniforms

Metering Programme Principles



Safely - Efficiently - Timely - Least Disruption - Customer Information

The Customer

- The customer will be informed of the purpose and benefits of the proposed metering programme
- The customer will be notified in advance of the proposed installation timing & nature of the works, and related support service availability/access
- Support services will consist of on site local information and central call centre
- Real-time field updates leveraging BGN Workflow Capability will enable provision of seamless customer service

Timeline and Productivity

- A planned programme of work will ensure highest sustainable level of installation productivity - the programme will be adjusted following ramp up phase to secure optimum/smooth installation levels
- Installation planning will include customer notification to provide an organised & controlled programme which delivers a positive service experience to customers

Using Irish Resource

- The project will utilise competent, experienced resources from the existing industry
- The project will assure standard, coordinated installation delivery by planning, scheduling, dispatching and returning all work via BGN leveraged work management systems & processes

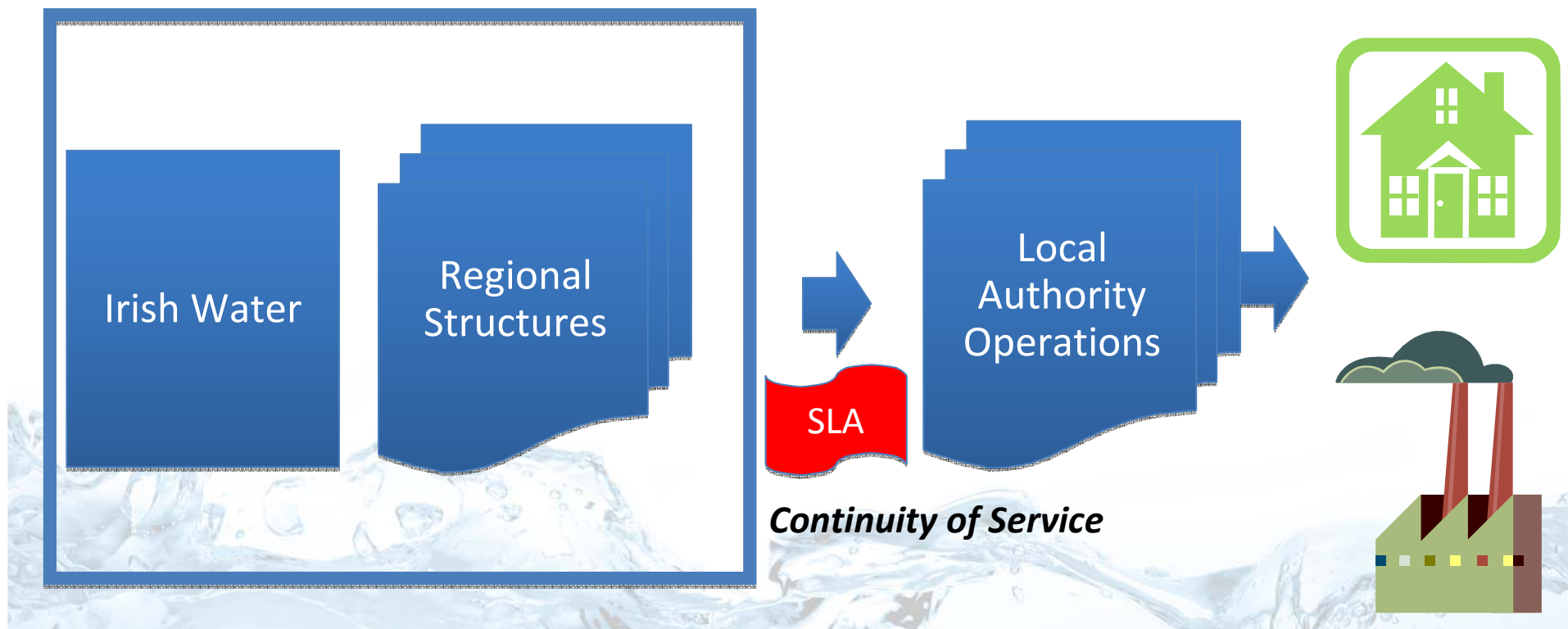
Programme Efficiency

- The programme will be procured, scheduled and managed to ensure installation value for money.

Service Level Agreements

- From Q1 2014, Irish Water will manage asset operations through Service Level Agreements (SLAs) with Local Authorities.
- These SLA's will allow for efficiency gains and use of technology, and they will be robust enough to last up to 2017 and possibly beyond

EPA / CER - Water Regulation

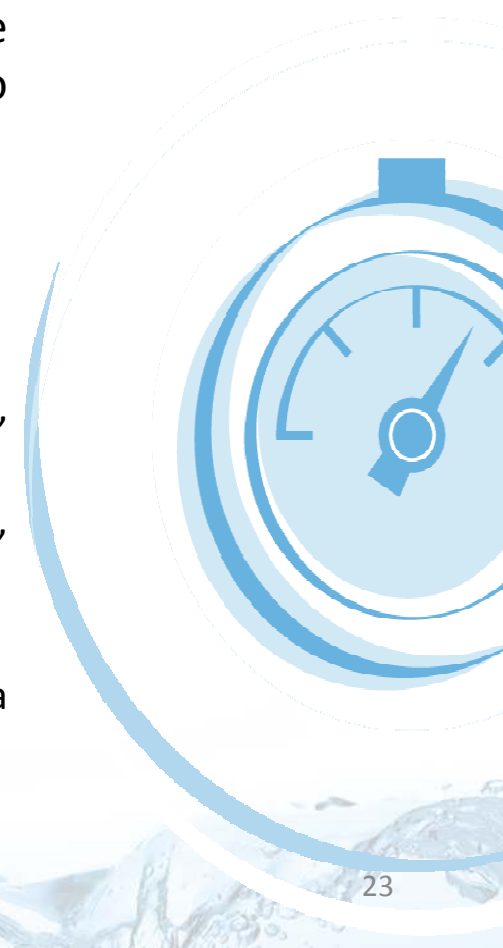


At a summary level, we believe the SLAs should deliver against five key principles. Together, Local Authorities, Irish Water and Government need to ensure that the SLAs deliver against the principles below.

Key Principle	Supporting principle
Achieve a low risk transfer for Irish Water, Local Authorities and customers for delivery of services	Seamless transfer of control delivered on time New Irish Water functional and regional structure in control Seamless provision of water services during change in the water sector
Underpin collaborative relationships using a long-term, equitable commercial footing	Collaborative relationship between Irish Water and the Local Authorities Contract for services on the basis of a fair and objective reward system Incentivise Local Authority performance
Deliver benefits for customers through investment and change	Increasingly cost efficient water sector for customers Funding investment in the public water services Manage labour input
Provide a rewarding career for those on the Irish Water journey	Provide secondment opportunities for Local Authority staff Forward looking industry and career opportunities in the water sector in enduring services Training and investment in people
Meet stakeholders' needs for high quality services, delivered by a respected Irish Water brand	Protect the public's health, safety of people, the environment and their assets Meet key operational performance indicators Irish Water will build on Local Authorities' ability to step up to the mark in emergencies and will support Local Authorities in wider emergency management Deliver an excellent customer experience at every touchpoint

Service Level Agreements

- LA water staff are an indisputable part of the future of IW
- Discussions currently ongoing to agree a mechanism to utilise the expertise, skills and experience with LAs to support IW to 2017 and beyond
- **Service Level Agreements:**
 - Achieve a low risk transfer to new structures and responsibilities
 - Underpin collaborative relationships based on a long-term, equitable, commercial footing
 - Deliver benefits through a regional approach, improved operation, more effective investment, innovation & improved process control
 - Provide a rewarding career for those on the Irish Water journey
 - Meet stakeholders' needs for high quality services, delivered by a respected Irish Water brand



Domestic customer billing

- **Timing:** Domestic water charges *from* 2014 – final date to be announced by Govt
- **Charges:** To be set by CER in late 2013 following consultation
- **Frequency:** Bills likely to be quarterly subject to CER approval
- **Allowances:** Policy decision for Govt
- **Disconnections:** Unlikely but subject to policy decision by Govt/CER
- **Customer database:** Developed from 3rd party sources
- *Billing approach:*
- **With meter:** Following billing trials, bill will be based on metered tariff
- **In scope to receive a meter:** Assessed charge moving to metered tariff
- **Not in scope for meter (apartments):** Assessed charge determined by CER
- **UK experience:** 1/3 have meters, 2/3 assessed charges

Conclusions

- *“Through a Public Utility, we will deliver sustainable, high-quality and efficient water and wastewater services for the benefit of the citizens of Ireland”*
- We have developed a programme of business objectives and milestones to deliver this vision and new end-state for the industry
- Bord Gáis will leverage its own national utility experience for the benefit of the Irish water sector;
- This is a significant body of work and there will be challenges for all stakeholders in this major reform of a large and important industry;
- Working on a collective basis, we have clear governance and a programme to deliver on these objectives;
- The new Irish Water will emulate customer service standards in our existing business through the HPUM model;
- The Metering Programme is about to commence on a joint basis
- OJEC notices will continue to be released in the coming months in support of the whole programme.

