

Engineers Ireland



Cork Region Annual Seminar

Engineering Water Services Reform

Rochestown Park Hotel, Cork, 20th March 2013

A large, stylized graphic of a water splash with numerous bubbles, rendered in various shades of blue, occupies the bottom half of the slide.

IrishWater
Programme

Irish Water -

Service Level Agreements, Secondments, Capital Programme &
other work streams

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Irish Water Programme

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IrishWater
Programme

Contents

- Vision for Irish Water & challenges ahead
- Update on the programme milestones
- Approach to regionalisation and proposed structure
- Recruitment and sourcing approach
- SLA process & draft principles
- Fact Finding
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- Domestic metering
- Customer Support Centre
- Commercial Contracts
- Capital Programme
- Work & Asset Management (WAM)
- Target Operating Model (TOM)
- Health, Safety, Quality and Environment (HSQE)
- Economic Regulation
- Legislation

Vision for Irish Water



The **Irish Water vision** is to build a unified, sustainable & reliable Irish Water service that is valued by our customers

Irish Water will:

- offer a **fair proposition** to our customers & **engage** with them and with our Local Authority partners in a **fair & transparent manner**
- build on the **best of Bord Gáis & Local Authorities** to deliver a **unified** water service, with best in class asset managers delivering **efficient** care for water assets
- act with **care for the environment** & for the **health and safety** of our people, our contractors, our service providers and our customers

The Challenge

- Irish Water, Local Authorities and the government are all embarking on an ambitious industry transformation
- The key principles set out in this paper, and the more detailed supporting set of requirements, are intended to help Local Authorities and Irish Water to work together to design the commercial arrangements, i.e. the Service Level Agreements (SLAs), that are required to support the transformation journey, and deliver its benefits



Service Level Agreements (“SLAs”)

Update on Irish Water Programme 2013

2013

2014

2015

2016

2017

By end 2013

IW management team in place including secondees from LAs

Fact finding 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

2013

2014

2015

2016

2017

By end 2014

Irish Water operational

Billing system ready from 1 Jan 2014

Assets transferred to IW

IW responsible for capital planning

Service Level Agreements in place with LA's since 2013

Domestic billing will have started

480,000 meters installed

Irish Water Programme milestones 2015 – 2017

2013

2014

2015

2016

2017

By end 2015

IW is fully 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 and beyond

End state

Approach to Regionalisation

Central

- 1 centralised management function driving standardisation and consistency across each regional administrative function
- Interaction with industry bodies / stakeholders e.g. EPA, CER

Key Focus

Efficiency,
Standardisation,
Consistency

Regional

- 3 Regional Administrative structures proposed with 8 office across the three regions
- Aligned with the Regional Authority structure as per the Local Government Reform "Putting People First"
- Adheres to geographical boundaries – county bounds
- Aligns with Local Authority structure

Regional Coordination,
Enforcement of Standards
and SLA Management

District

- Day 1 / Q1 2014: District = Local Authority
- Enduring model: District = Grouping of Local Authorities

SLA Delivery and
Operations Management

Asset Systems

- Consist of 1,066 wastewater agglomerations (WWA) and 945 water supply zones (WSZ)
- WSZ: "from source to meter / stop-cock"
- WWA: "from wastewater connection to discharge"

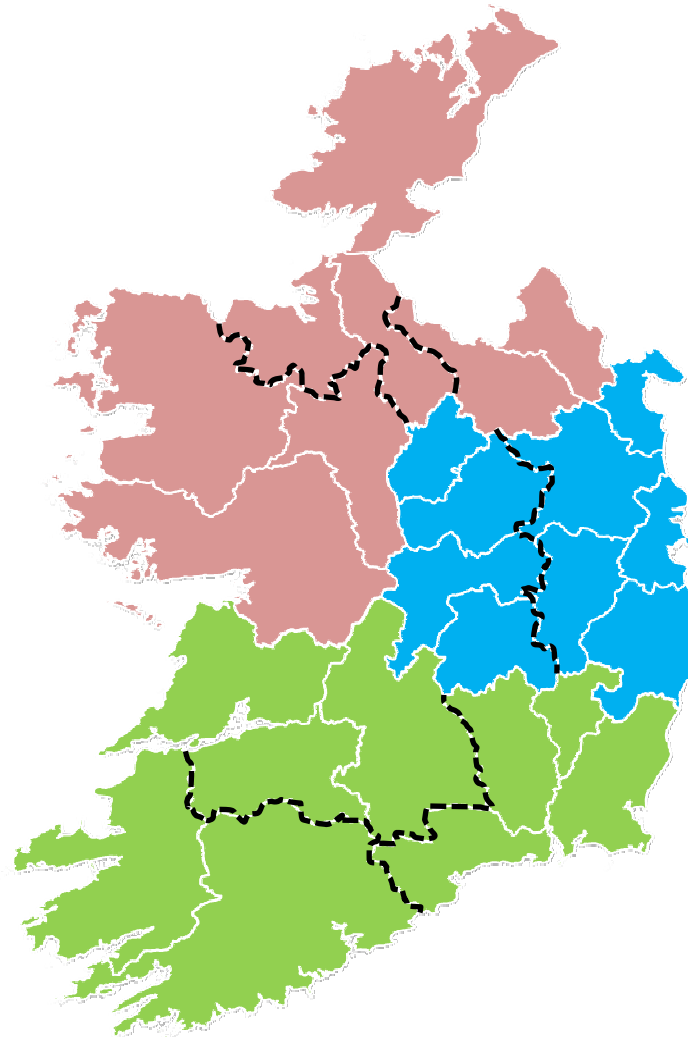
Asset Operations and
Performance

Regional Offices

- Irish Water's regional offices will make decisions on business policy, rules, capital spending and issues escalated to it by management of local operations
- Day-to-day decision making within business as usual operations will be delegated to local management, controlled by business rules approved by Irish Water
- Performance against SLA and other operational KPIs under the SLAs will be reported upon daily to regional management
- Irish Water will manage the performance of secondees using objective KPIs and will drive performance management and discipline systems, with Local Authorities retaining accountability for performance

Proposed Regional Structure

- 3 Regions - colour coded
- At least 1 regional office per locator zone
 - demarcated by dotted lines within colour coded regions



Recruitment and sourcing approach



M1

01 July 2013: Customer Launch and Metering

- Key roles required for Irish Water to be recruited from mix of external hire (manager level) and LA secondees



M2

01 October 2013: Customer Validation

- Key roles required for Irish Water to be recruited from mix of external hire (manager level) and LA secondees



M3

01 Jan 2014: Billing Day 1 and Asset Transfer

- All roles to be advertised across Bord Gáis, Local Authority and external
- Expected increase in number of roles that can be potentially sourced from Local Authorities, due to skills required for Asset ownership and Operations

Transition and Integration

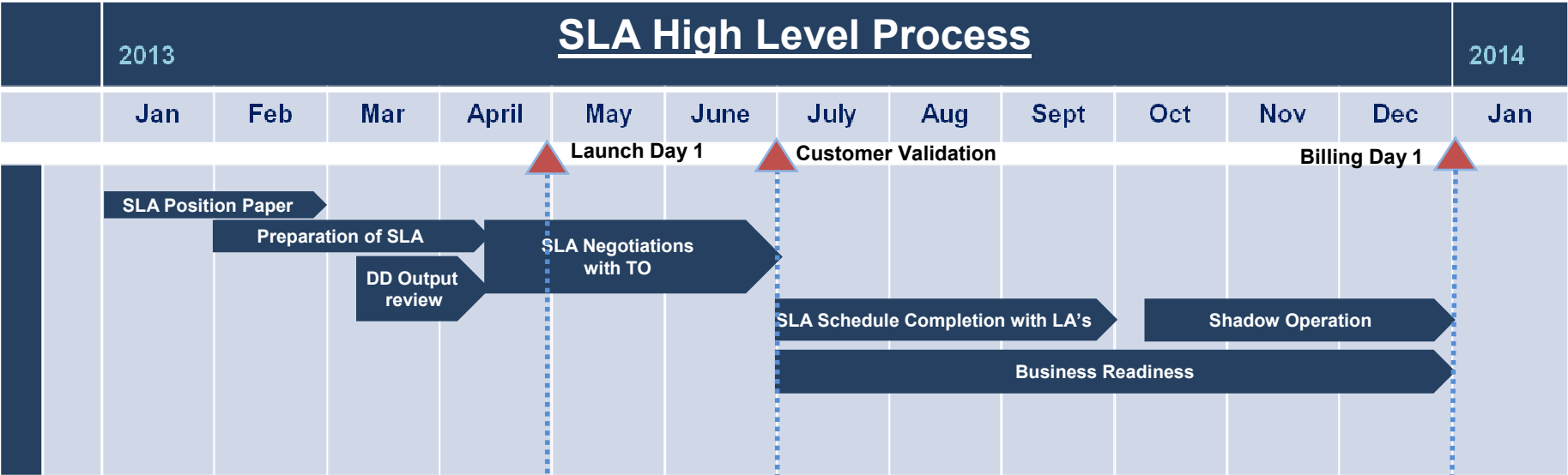
- The creation of Irish Water represents an exciting career opportunity for staff both in existing local authorities and in the wider community
- There are two main areas of focus for the transition and integration team are the;
 - Transition and integration of resources into the Irish Water Programme
 - Transition and integration of resources into the Irish Water Organisation

Irish Water Programme	Irish Water Organisation
Resources required to set up the Irish Water Organisation	Resources needed to run the Irish Water organisation
Transition of resources is through secondments	Transition of resources to be defined
Secondments on existing Terms and Conditions	Transition terms to be defined
Secondments through Q1, 2 and 3 2013	Transition of resources from Q3 2013

Secondment Process

- Where a role is identified it will be advertised through the Local Authorities
- An Expression of Interest form and CV should be submitted from interested candidates to laiwprogramme@water.ie
- Secondment Phase 1 has just been completed for 29 positions in 14 specific roles examples of which include; Operations lead, Maintenance lead and Small Capital lead
- 341 applicants applied for the 29 roles, 134 made it to interview stage and 126 were interviewed
- Secondments will be rolled out over the coming months to fill approx. 50 other roles on the Irish Water Programme, while roles in the Irish Water organisation will start to be filled from Q3 2013 onwards

SLA Development Approach

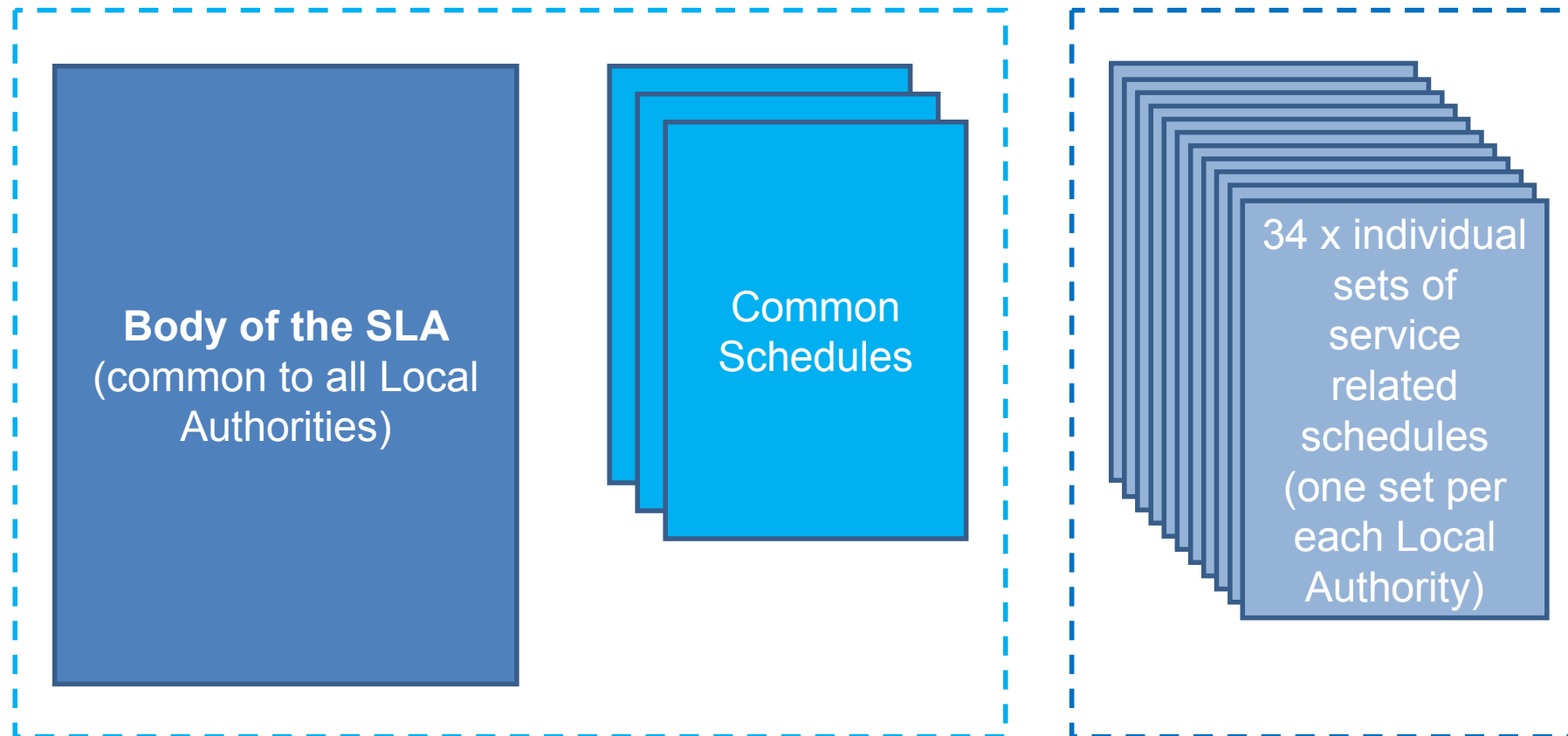


Key Dates	Activities
31 Mar, 2013	SLA Principles finalised
Current – mid Apr, 2013	Drafting SLA document
Mid Apr – 30 Jun, 2013	Centrally negotiated SLA
July – 30 Sept, 2013	SLA Schedule elements negotiated with 34 Local Authorities

Key Principles

Key Principle	Supporting Principle
Achieve a low risk transfer to new structures and responsibilities	Seamless transfer of control delivered on time
	New Irish Water functional and regional organisation in control
	Seamless provision of water services during industry change
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
	Upside and downside on Local Authority revenue depending on performance
Deliver benefits through investment and change	Increasingly cost efficient industry
	Funding investment in the industry
	Manage industry headcount
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 industry 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 and their assets
	Meet key operational performance indicators
	Build on Local Authorities' ability to step up to the mark in emergencies
	Deliver an excellent customer experience at every touchpoint

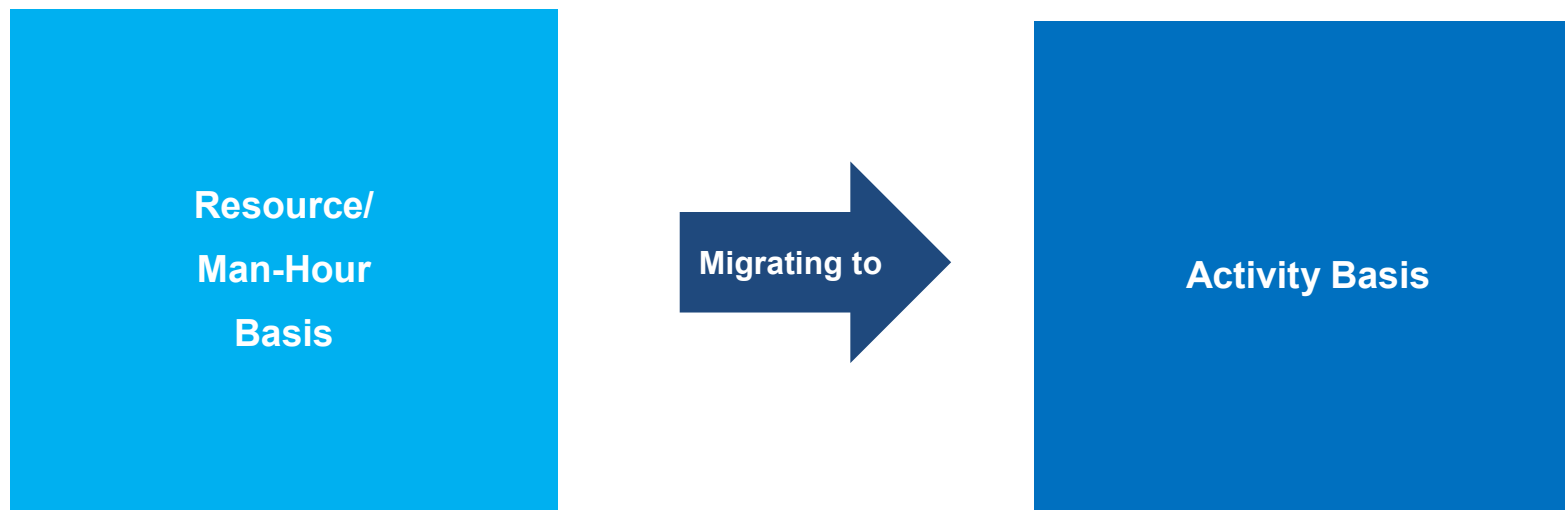
Structure of the SLAs



To be negotiated centrally by Irish Water and the WSTO

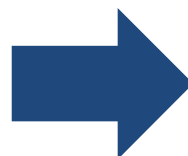
Bilateral framework contracts to be agreed between Irish Water and each Local Authority

The Service Catalogue



Water Services Operational Requirements

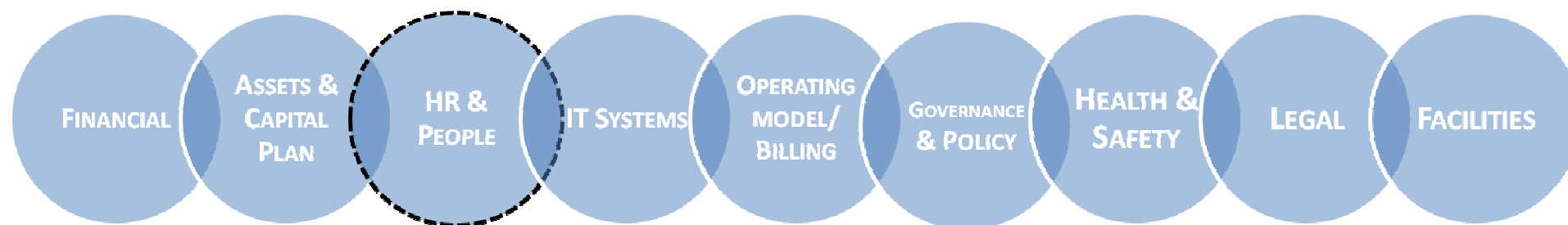
Range of Services	
1.	Operations and maintenance – plant management and staff
2.	Operations and maintenance - Local area management overhead services
3.	Higher level management, capital programmes
4.	Major Capex project resource
5.	Minor Capex project resource
6.	Disaster recovery and emergency services
7.	HR services
8.	IT services
9.	Testing and reporting
10.	Statutory consultee - assistance with planning compliance, liaison officers



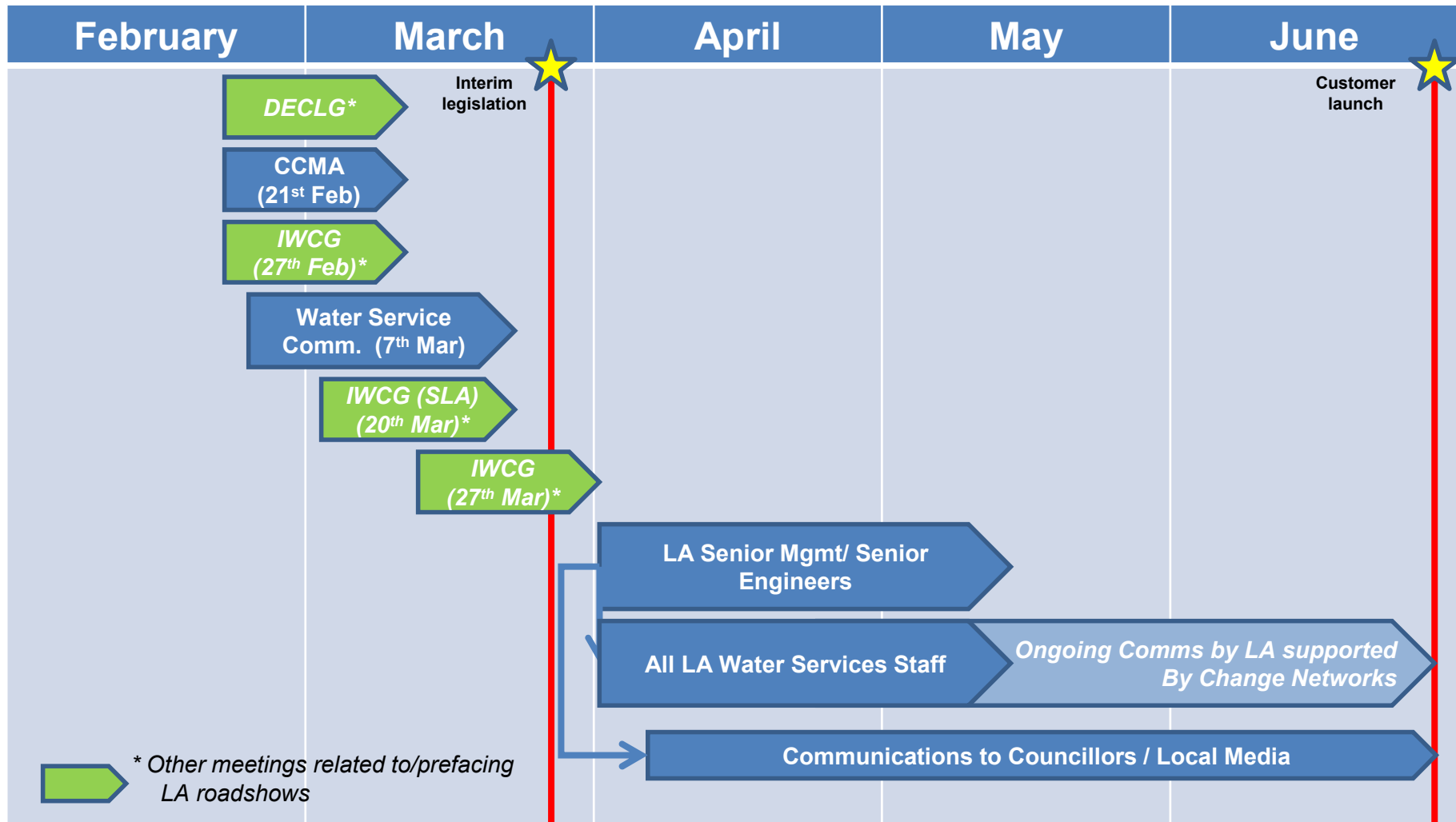
Services will be procured on a number of bases
Managed services
Exceptional services
Transitional managed service
Long term secondment – role transfer
Long term secondment – new role
Fixed term secondment

Fact Finding

- Areas in scope for fact finding:



Communications - Irish Water roadshows



Domestic metering

- **Roll out of national water meter programme:**
 - July 2013 to Dec 2016
 - 1.05 million meters – (circa 27,000 meters per month)
 - Meters fitted with radio units to enable remote meter reading
 - Scale unprecedented – by factor of three
 - Overall costs estimated c. €450 million (Pre-tender)
- IW is committed to retaining existing non-domestic 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 the location of the domestic connections
Appoint Boundary box, fitting and water meter suppliers April	European wide process to appoint c. 3 suppliers Meters to common specification
Appoint regional management contractors - May 2013	Min of 3, max of 8 - to manage workflows, quality, logistics & labour
Installation training	WSTG developing boundary box with meter training from June 2013 Additionally water hygiene awareness training will be available from May 2013
Meter Installations to commence in July and targets for 2013 are:	End 2013: 160,000 meters/boundary boxes End 2014: 480,000 meters/boundary boxes End 2015: 800,000 meters/boundary boxes End 2016: + 1.05million meters/boundary boxes
Communications Ongoing	Information pack for every home & call centre available Installers will carry accreditation and wear branded uniform

Irish Water Customer Support Centre

- A provider will be selected by mid April 2013 on a 5 year contract to commence operations by July 1st
- The customer support centre will be located on the island of Ireland
- Irish Water will offer a multi-channel service to customers:
 - Telephone inbound and outbound
 - Web self service
 - Email/webchat
 - White mail (Correspondence)
 - Retail outlets (Post Office/Payzone)
- The operation will employ up to 400 FTE's by 2015 covering end to end customer service from connection, operations queries and billing and collections

Scope of the Customer Support Centre

- Complaint handling will be a high priority with a back up team within Irish Water
- The Customer Support Centre will be focussed initially on supporting the meter rollout project
- From 2014 the largest contact driver will be billing
- Robust processes will be implemented to handle contacts requiring combined Irish Water & Local Authority resolution
- The customer support centre will be positioned at the heart of Irish Water to ensure reliable customer service is delivered

Expenditure Contracts

- Irish Water Centralised Procurement & Contracting Function will support all Sourcing, Procurement and Contracting activities for Irish Water, Irish Water Regions and Local Authority Water Services operating under the SLA
- On Asset Transfer Date a significant number of commercial expenditure contracts will novate and transfer to Irish Water including;
 - DBOs
 - In-flight Construction Contracts
 - All direct and indirect support contracts including ICT, Facilities, etc.
- All WSIP and RWP projects in planning, procurement & contracting stages will transfer to Irish Water - this also includes engineering consulting and ancillary support contracts attached to specific projects
- During the transition period the priority is focused on supporting & maintaining the current high standards of operations & asset maintenance carried out by Local Authority Water Services

Expenditure Contracts

- In recent years many Local Authority Water Services have aggregated requirements and formed a number of frameworks and panels for specific services in LA areas. Irish Water wish to build on this work and expand the use of frameworks and panels across all Local Authority Areas
- IW will establish frameworks and draw-down panels for Works, Services, Consumables (Energy and Chemicals), products and materials at Local Authority, Regional and National Levels
- IW recognise the importance, experience and expertise of local contractors and service providers and will continue to retain and utilise their services through frameworks and panels
- IW recognise the importance of maintaining response times and flexibility in retaining third party service providers. Local Authority Water Services will have flexibility in drawing down contractors and service providers from frameworks

Capital Investment Planning

Asset Management Approach will integrate:

- Asset Data (Operations data on Condition/Performance)
- Policy (Environment, Planning, Climate, Funding Model)- DECLG
- Capacity (CSO, Forfas/IDA, Regional & Local Planning)
- Compliance (Drinking Water, UWWTD, WFD, Licensing) – EPA
- Serviceability capacity of Assets operated optimally

Capital & Operational Budgets interlinked

- Relies on accurate knowledge of operating performance
- Uses GIS & Models verified from real time data
- Optimises whole life cost balance – timely investment
- Focuses on Risk abatement & resilience of the service

Strategic Planning & Capital Programme - Irish Water

National Water Services Delivery from 2014

EU & National Policy Context (DECLG, CER & EPA)

Strategic Investment Planning – Priority Plans of IW

- Short Term 2014-2015 (WSIP Extension) - Prioritisation
- Medium Term Regulatory Plan 2016-2021 & Funding Approach
- Long Term Plan “Irish Water 2040” – Strategic Direction

Capital Programme Transition in 2014/2015

- Continue in-flight Contracts to Completion
- Projects in Planning – Business Case review
- Support asset surveys & studies for evidence based investment
- Seek greater return from small capital interventions
- Deliver more effectively through frameworks & standardised solutions

Capital Investment in Irish Water

Irish Water Capability & Organisation in 2014

Asset Management

- Asset Strategy – Defining the Programmes of Work & Budgets
- Asset Investment Management – 5-Step Phases & Gates
- Asset Programmes – Conceptual Design & Statutory Approvals
- Capital Delivery– Regional & Local Delivery with Workflow Management

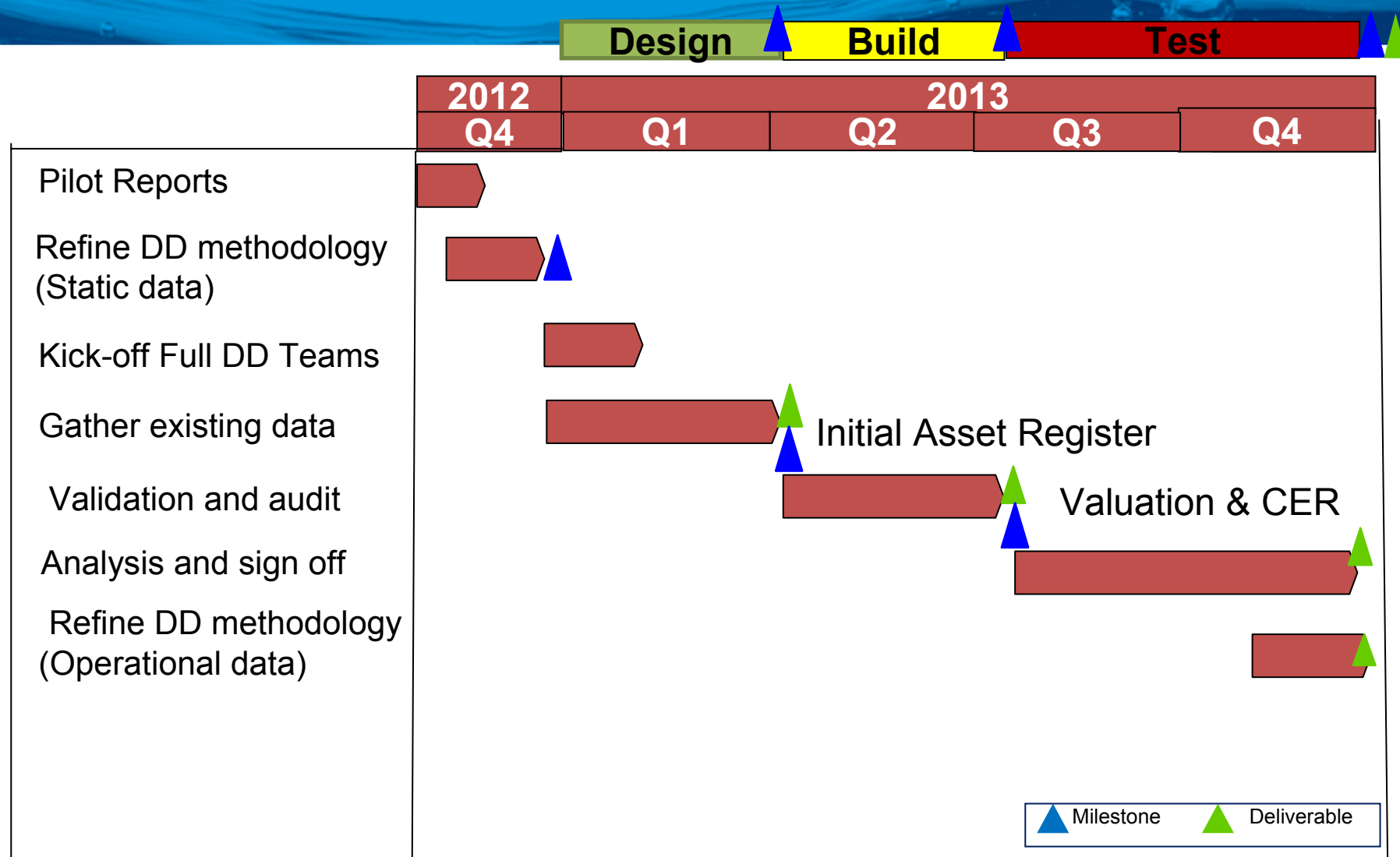
Asset Investment Process

- Gate 1: High Level Business Case – Solution Concept, Budget & Objectives
- Gate 2: Design & Statutory Approvals (incl Delivery Strategy)
- Gate 3: Procurement & Contract – Final Budget & Schedule
- Gate 4: Construction Delivery to Commissioning & Handover
- Gate 5: Project review against strategic plan & lessons learnt

Support Functions

- Contract, Procurement, H&S, Cost/Risk, Environment

WAM 2 - Milestones & Due Diligence Timelines



WAM 2 & 3 - Data Priorities

❖ WAM 2 (2013)

❖ System Data

- Maximo - **Fixed Asset** Static Data
- GIS - **Linear Asset** Datasets
- SCADA and HSQE system info
- O&M Contracts for Fixed and Linear Assets

❖ Process Data

- Proposed and Inflight Capex Budgets
- Opex Budgets and Rates at Plant level

❖ WAM 3 (2014)

❖ Operational Data

- Maintenance Activities
- Types & Quantities
- Tasks & Safety checks,
- Durations & (Labour /cont) costs

Target Operating Model (TOM) Design

Target Operating Model (TOM) design phase - underway & will be completed shortly

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 establishment programme
 - We are engaging with internal and external stakeholders and industry experts to develop the TOM for Irish Water, including representatives from Local Authorities and the DECLG

HSQE - Health, Safety, Quality & Environment

A best practice HSQE section is currently being set up for IW by HSQE program team

This is being set up in line with industry recognised standards:

- OSHAS 18001 - Safety Management
- ISO 14001 - Environmental Management
- ISO 9001 - Quality Management
- ISO 50001 - Energy Management

Key roles of the HSQE department when set up are:

- To define policies for Health and Safety, Quality, Environment & Energy
- To set up an Integrated Management System (IMS) to assist in driving compliance and best practice
- Advise and support the business in all HSQE matters
- Leverage off existing expertise and systems in the Local Authorities to develop a leading best practice national Utility HSQE system

Economic Regulation



The role of economic regulation

Network industries are subject to certain characteristics

- Network industries are 'natural monopolies'
- Typically require high levels of capital investment in long-lived assets
- Need to access financial markets to do so

That require regulation with multiple objectives

- Protect against monopoly
- Provide stable return on investment
- Encourage efficiency and innovation
- Minimise burden (and costs) of regulation

In the UK and Ireland, regulation has been based around RPI-X

- RPI-X can be based on revenue or price
- Slightly different implementation in different sectors
- But, same basic building blocks

Incentives for efficiency

Opex

- Utility is set a (5 year) opex allowance, based on expected opex
- If utility beats opex allowance, it retains difference as surplus
- Allowance is reset at subsequent control, encouraging dynamic efficiency

Capex

- Capex plan for control period is agreed
- If utility can deliver capex for less (or efficiently defer) it can earn a return (capital allowance and possibly depreciation) for a period
- Then reset for subsequent periods, to consumer benefit

WACC

- Regulator estimates weighted average cost of capital (WACC)
- If firm can finance activities for less (esp. re debt) then retains the difference as surplus

X-factor

- Regulator can set an X-factor, relating to efficiencies it requires business to make
- This can be based on evidence that business is inefficient
- Or on a prospective 'frontier shift' basis

Water Services Legislation (Bill No 1)

- **Bill No 1 currently at Dail Committee stage (Seanad stage complete)**
- **Expect new Act in place by mid to late March**

Shareholding structure

Memorandum and articles of association of IW

Borrowing limits

Accounts and annual report

Appointment of BGE and IW as metering authorities

Ownership of water meters

Provision of customer information to BGE and IW

Performance of functions by the CER

Power to charge domestic customers

Water Services Legislation (Bill No 2)

- It is anticipated that Act No. 2 will, for example:
 - Give full WSA powers to Irish Water
 - Define scope of Irish Water functions
 - Define the roles of Minister, CER, and EPA in regulating Irish Water especially in relation to review of capex and opex and the tariff-setting process
 - Define the governance framework applying to Irish Water e.g. Consents required by Irish Water; e.g. role of Minister in appointing directors etc.
 - Give legislative grounding to Service Level Agreements between Irish Water and Local Authorities
 - Facilitate the statutory transfer of assets and liabilities from Local Authorities to Irish Water