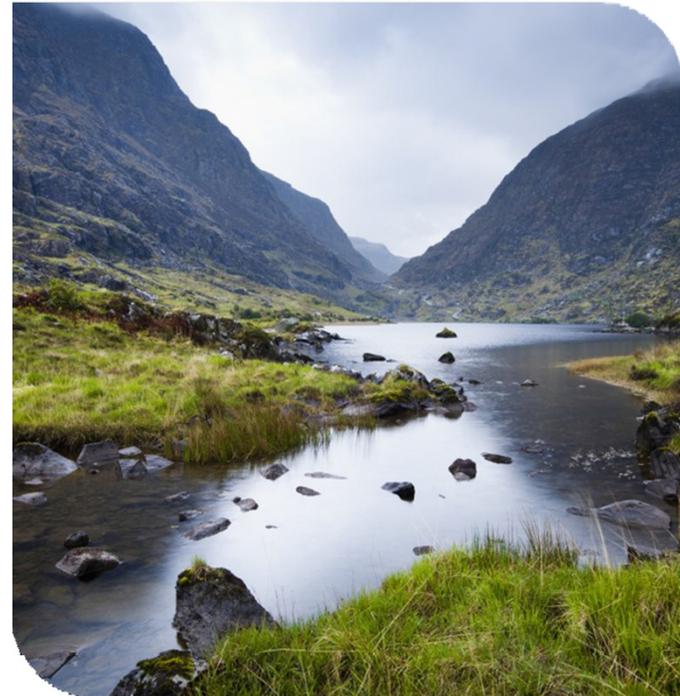


COVID-19 impacts on Irish Water Operations and Investment



Update to Water Advisory Body
11th June 2020

Introduction



- Invitation issued from Water Advisory Body to Irish Water on 29th May to:
 - *“provide an overall update with an emphasis on Covid-19, in particular impacts on Irish Water’s Business Plan and Strategic Funding Plan delivery including Operations, Regulatory Compliance, Capex Programme and Revenue/Finance”*

AGENDA

- January 2020 outlook
- Covid-19 impact
- Additional challenges from drought
- Implications for Strategic Funding Plan
- Look forward challenges and opportunities

Attendees



- Niall Gleeson - Managing Director
- Eamon Gallen - General Manager
- Chris McCarthy - Head of Finance
- Brian Sheehan - Head of Asset Delivery
- Margaret Attridge - Regional Operations Manager, Southern Region
- Florence White - Ervia Head of Corporate Affairs

2020 outlook at the start of this year

January 2020 financial outlook



- Revenue Control Period 3 Draft decision for 2020
 - Capital Investment Budget: €854m
 - Operational Expenditure Budget: €763m (significant efficiency challenge)
- Exchequer funding reduced by: € 75m through budgetary process
- High level of capital spend committed for 2020 and 2021
- Significant efficiency challenges for Local Authority (SLA) and Irish Water costs
- Single Public Utility (SPU) requires an impetus
- Non-Domestic Tariff Harmonisation (NDTFR) pending
- Contact centre transition imminent
- Impact, budgetary and otherwise, of weather related events (storms, drought etc) being assessed

Covid-19 impact swift and significant

COVID-19 readiness



- Early signals prompted us to plan proactively
- Crises Management Team (CMT) mobilised in January 2020
- Proactive engagement with Local Authorities, DBO Operators & Supply Chain to ensure Business Continuity Plans (BCP) were in place / tested
- National approach to protect essential services and safeguard staff
- Daily Irish Water CMT meetings convened from February
- Irish Water BCPs activated mid-March
- Essential supplies stockpiled (PPE, Chemicals, Bottled water etc.)
- IT systems tested
- All staff and partners (c2,000) transitioned to mobile working, where possible, from 13th March

Covid-19 response and impacts

RESPONSE

- 10 essential capital projects continued through lockdown
- Maintained critical leak repairs
- Amended sampling regime agreed with EPA/HSE
- Contact centre moved to remote working – no disruption
- Twice weekly meetings with CCMA and LGMA
- Regular contact with peer Utilities in UK & Europe
- Staff well and safe
- Minimal disruption to critical services for customers
- Early remobilisation of Leakage Reduction Programme

IMPACTS

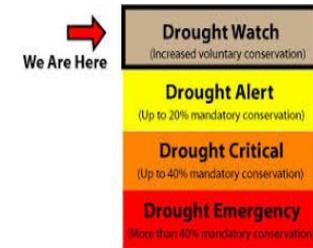
- Changed water demand
 - Domestic: + 20%
 - Non-Domestic: - 40%
- Estimated - €50m impact on non-domestic revenue
- c95% of c300 construction sites shut down
- Probability of Contractor claims from supply chain due to shutdown
- Impact on delivery of committed outcomes and outputs for 2020

**Drought has added
further challenges**

Water Scarcity – Prepared and proactive



- Lessons from 2018 drought improved response capability
 - Targeted asset intervention
 - Proactive leakage management
 - Supply chain readiness
- Water Scarcity Management Team mobilised in April - Cross functional 'Water Scarcity Action Plan' drafted
- Tracking 'Sources Under Challenge' and 'Production status'
- Daily engagement with Local Authorities
- Supply chain ready - tankering and alternative supplies
- Greater Dublin Area Critical
 - Weekly meetings on Supply/Demand
 - Close monitoring raw water sources - Pollaphuca & Vartry
- National Water Conservation Campaign – 11th May
- National Water Conservation Order – 9th June



Drought 2020 challenges and responses



CHALLENGES

- Driest May since 1850
- Long range forecast for continued dry weather
- COVID-19 impact on consumption
 - Domestic + 20% Non-Dom - 40%
 - No reduction in overall demand
- More frequent bursts due to dry ground (86 large bursts May '20)
- Increasing water demand as restrictions lifted
- Increased agricultural demand on rural schemes
- Raw water sources under severe pressure

RESPONSES

- National and regional Incident Management Teams (IMT)
- Water Conservation Campaign started 11th May
- Tankering, sand bagging, night time restrictions in place:
 - 5 supplies Severe Drought
 - 23 supplies Drought
 - 51 supplies Potential Drought
- Emergency asset interventions
- Proactive engagement with 350 large water users
- National Water Conservation Order 9th June to 21st July

Drought response impacted by COVID-19



- Safe reliable water supply is central to public health
- Supply chain working well – no shortage of chemicals etc.
- Proactive leakage activity and delivery of asset interventions must comply with public health guidance (e.g. social distancing)
- Traditional testing (e.g. at Customers' taps) not an option
- Static tankers are not the preferred choice due to social distancing requirements
- Mobile tankers used to fill reservoirs – logistically difficult and costly
- Greater Dublin Area (GDA) operating at unsustainable levels
 - Spike in demand on warm sunny days +40MLD equivalent to 200,000 people
 - Using more water than we can produce
 - Accelerated drawdown on raw water storage

Leakage reduction plays a vital role



- Leakage reduction is a long term commitment, not a short term intervention
- Central to Irish Waters approach to supply demand balance
- Current Leakage rates
 - National 41%
 - Greater Dublin Area (GDA) 37%
- Long term target to reduce leakage below 20%
- Targeted reduction 166 MLD (Million Litres/Day) - 44 MLD in GDA
- 2020 Leakage targets 116MLD (Gross) 28MLD (Nett)
- €400m investment 2016 - 2019
- €500m investment 2020 - 2024 (RC3)
- Leakage Management System (LMS) live in 2018 – 2019 first full year
- Water restrictions destabilise the network and can increase leakage
- Targeted leakage reduction in water stressed areas
- Successful and efficient reductions often achieved through unseen work (e.g. pressure management, LMS improvements)
- Additional investment in 2020 would support drought mitigation

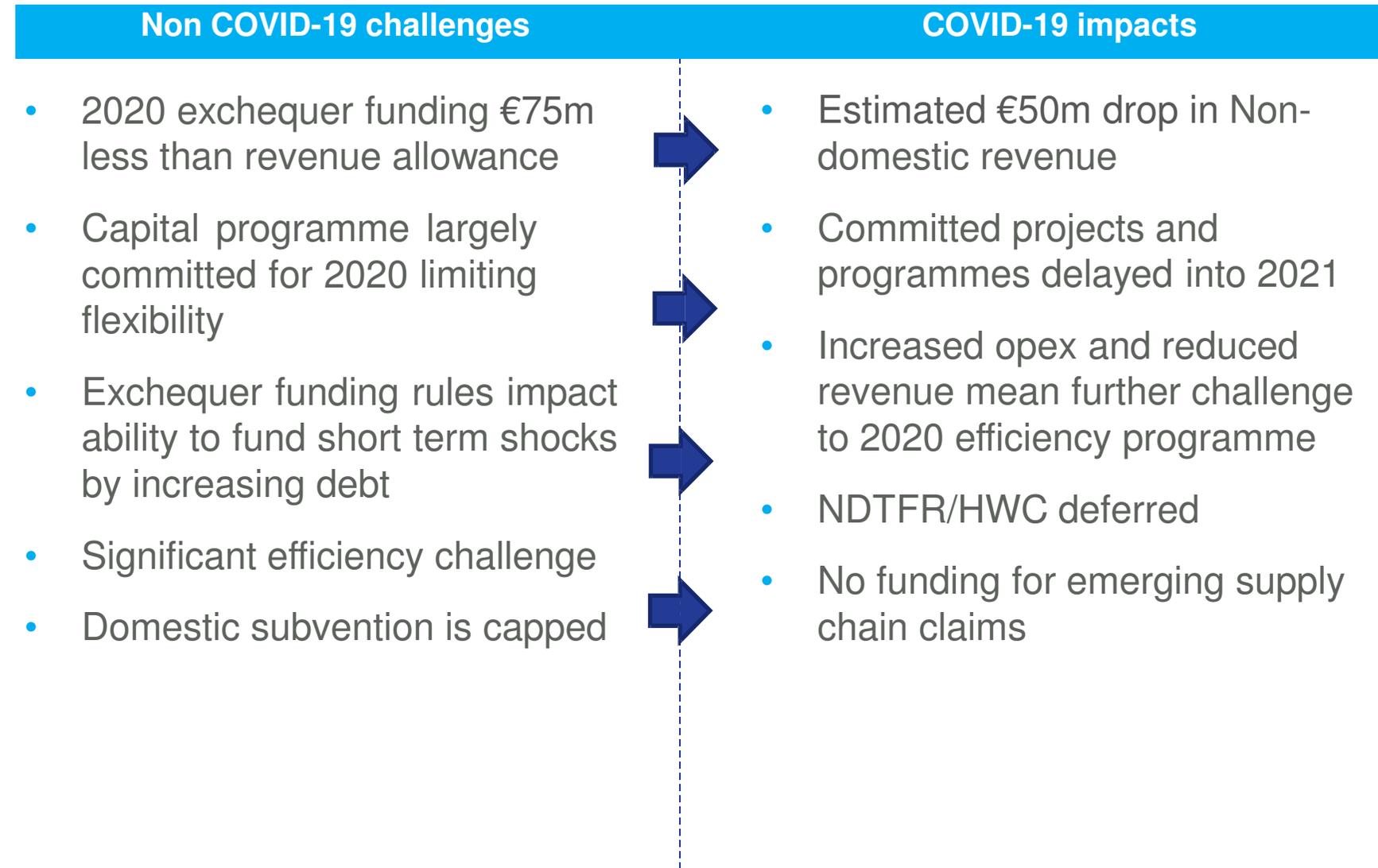
Ongoing proactive communications

- Extensive national communications campaign with integrated approach (press, radio, digital, TV, stakeholder)
- Highlights changed demand
- Focus on non-essential use
- Approved by DHPLG NPHE
- Clear public health messages
- Launched 11th May
- WCO 9th June
- Continues throughout summer
- www.water.ie/conserve



Implications for delivery of Strategic Funding Plan (SFP)

Impact of COVID-19 on 2020 plans



Implications for SFP – Revenue/Finance

COVID-19 Impact	Implication on strategic funding plan
<ul style="list-style-type: none">• Non Domestic Tariff Harmonisation	<ul style="list-style-type: none">• Reduction in forecasted non-domestic revenue throughout price control• Additional subvention would be required to ensure overall revenue allowance is achieved
<ul style="list-style-type: none">• Increases in domestic usage not reflected in capped subvention	<ul style="list-style-type: none">• Rebalancing of 2020 revenue sources not allowed under current model
<ul style="list-style-type: none">• Reduction in collection of non-domestic revenue	<ul style="list-style-type: none">• Lack of funding flexibility means delaying capital projects into 2021. Planned outputs/outcomes will not be achieved
<ul style="list-style-type: none">• Contractor claims arising from COVID-19 shutdown	<ul style="list-style-type: none">• No funding for contractor claims• Commercial dispute process must be followed adding further risk to supply chain and capital programmes

Implications for SFP – Capex programme



COVID-19 Impact	Implication on strategic funding plan
<ul style="list-style-type: none"> Enforced shutdown of construction means planned 2020 capital investment, outputs and outcomes will extend to 2021 and beyond 	<ul style="list-style-type: none"> Planned capital spend, outputs and outcomes will deviate from agreed funding plan and business plan
<ul style="list-style-type: none"> Necessary social distancing will impact productivity and delivery timelines for the foreseeable future 	<ul style="list-style-type: none"> Extent of impact not yet clear as resumption of construction relatively recent. Risk to RC3 outputs and outcomes and SFP
<ul style="list-style-type: none"> COVID-19 impact on exchequer finances may impact on Government’s ability to fund capex programme. 	<ul style="list-style-type: none"> Any impact due to exchequer financial restrictions will have a direct impact on available capital funding and consequentially programme delivery of committed outputs and outcomes
<ul style="list-style-type: none"> Planning and public consultation impacted by Covid-19 restrictions 	<ul style="list-style-type: none"> Delays to delivering projects through planning phases due to impact of emergency bill on consultation, CPO etc. Likely backlog in planning system

Implications for Operations & Compliance

COVID-19 Impact	Implication on strategic funding plan
<ul style="list-style-type: none">• Social distancing restricts site visits impacting Regulators (e.g. EPA), external contractors and process optimisation teams	<ul style="list-style-type: none">• The impact on BAU activity increases costs and extends delivery timelines• Activities that reduce operational costs (process optimisation, capital maintenance) are significantly constrained.
<ul style="list-style-type: none">• Reactive and emergency response more difficult due to necessary additional safety protocols	<ul style="list-style-type: none">• Mandated response times for customer facing activities (e.g. bursts) may not be achievable due to COVID-19 restrictions
<ul style="list-style-type: none">• In-year regulatory allowances will be difficult to maintain given the significant change to capital investment and operations	<ul style="list-style-type: none">• The profile of capital investment based on agreed allowances will need to be reviewed and potentially exceeded in 2020 to factor in the delay in implementing the capital programme

Summary financial impacts and risks

Key Take Aways	Risks
<ul style="list-style-type: none">• Irish Water reacted quickly to COVID19 financial impacts• Budgetary and Funding:<ul style="list-style-type: none">– € 75m Exchequer Budget cut– € 50m Fall in Revenue– Additional Drought costs– Emerging needs– Potential claims (2020)• Capital and Operational outputs and outcomes will be behind target for 2020• Currently >€110m impact on 2020 Capex investment vs RC3 approved value• Efficiency targets in 2020 and 2021 will also be significantly impacted• Ongoing engagement with CRU/EPA• Close management of adjusted programmes for remainder of year critical.	<ul style="list-style-type: none">• Non domestic revenue may not recover• Impact on cash inflows & profitability may be greater than expected.• Capital delivery ramp up could be faster than anticipated• Current year's allowance may be reduced further• Flexibility may not be forthcoming on current versus non current funding.• Future funding may not align with RC3 approved amounts due to exchequer constraints post crisis.• Emerging contractor claims for COVID-19 impacts not currently funded.

Look forward challenges and opportunities

Challenges and opportunities

CHALLENGES

- Difficult financial position further deteriorated due to COVID-19
- Lack of certainty on financial outlook (Opex or Capex)
- Majority of Opex is pass-through or committed
- Little progress on SPU
- SLA remains a barrier
- COVID-19 restrictions will continue in some form for foreseeable future
- Drought 2020 will have significant additional budget impact
- Impact on delivery of outcomes and outputs

OPPORTUNITIES

- Pipeline of 'shovel ready' IW projects to support potential nationwide stimulus package
- Targeted intervention on leakage possible if funding available
- Proactive IW response to significant challenges:
 - Operations steady
 - BCP working well
- Remote working can continue for majority of staff
- High degree of cooperation from Local Authorities
- Strong engagement with Regulators and Stakeholders

Q&A