



Consultation on Wholesale Charging Rules

An Ofwat Consultation

Consumer Council for Water Response

September 2016

1 Introduction

- 1.1 The Consumer Council for Water (CCWater) is the statutory consumer organisation representing water and sewerage consumers in England and Wales. CCWater has four regional committees in England and a committee for Wales.
- 1.2 We welcome the opportunity to comment on Ofwat's proposed charges scheme rules and on future developments.
- 1.3 Overall we are supportive of the guidance. However, where we have comments on specific questions these are outlined below, and include the following key points.
- The 5% bill change figure (inclusive of inflation) is appropriate as a formal trigger point for impact assessments. However, companies should also give consideration to the incidence effects of bill changes below this level in cases where:
 - nominal impacts for any customer may be significant;
 - it would fall on customers who might be vulnerable; or
 - the increase is twice or more the rate of inflation (for any customer or groups of customers).
 - We are supportive of the approach of moving towards greater transparency and appropriate cost allocation in wholesale wastewater charges. However, we believe the requirement for this to have been addressed by companies by 2020 should only apply if that allows sufficient time for changes to be phased in at a rate which is acceptable and affordable to customers. Making rapid large scale changes to customers' bills could undermine trust in an individual company or the industry.
 - We would, however, appreciate assurance that Ofwat will ensure that the rules relating to this issue do not negatively impact on the policy approach which companies take in terms of providing refunds to customers in the event of overpayment.
 - Assurance statements by company boards should include confirmation that the charges rules have been followed and that companies have consulted with CCWater in an appropriate and timely manner.

2 Our response

Q2: Do you agree with our proposed threshold (5%) for significant bill increases, above which wholesalers will be required to undertake an impact assessment for changes to charges?

- 2.1 Our approach remains consistent with that set out in our response to Ofwat's previous consultations on charging rules.
- 2.2 We support the requirement for companies to carry out a proportionate impact assessment in developing their strategies for handling incidence effects resulting from changes to charges.

- 2.3 The 5% bill change figure (inclusive of inflation) seems appropriate as a formal trigger point for such impact assessments. However, companies should also give consideration to the incidence effects of bill changes below this level, where appropriate, taking account of what the ‘worst case’ impact would be for any individual customer. This may be necessary where:
- it is evident, that the nominal impacts for any customer, or groups of customers, could be significant;
 - it would fall on customers who might be vulnerable or sensitive to such impacts; and
 - the increase is twice or more the rate of inflation (currently RPI in the preceding November) for any customer. Such an increase, especially at times of low inflation, is likely to arouse concern and undermine trust.
- 2.4 In both of the above cases companies should ensure there is early engagement with CCWater to identify options to mitigate any impacts.

Q6: Do you agree with wholesalers being required to inform retailers of the separate prices for the different wholesaler’s wastewater services they are being provided with? And, do you agree that it is appropriate that wholesalers should be required to consider how they will separate out - having considered the costs of these services and having appropriately engaged with their stakeholders - the different wastewater services they provide to their customers in England and Wales by April 2020?

- 2.5 We are supportive of the approach of moving towards greater transparency and appropriate cost allocation in wholesale wastewater charges. However we are concerned about the potential impact which changes associated with this may have in terms of changes to customer bills and the ‘bill shocks’ which could arise for some customers.
- 2.6 It will be vital for companies to model the impacts on different customers and engage with CCWater to agree what mitigation is needed to protect customers through this process. Gradual phasing in of such changes could be an option.
- 2.7 We note Ofwat’s expectation that companies separate out costs appropriately by 2020. We believe this deadline should only apply where that allows sufficient time for changes to be phased at a rate which is acceptable and affordable to customers.

Q11: Do you have a view on the most appropriate approach to dealing with back billing?

- 2.8 We note that Ofwat has settled on an approach which limits back billing to a maximum period of 16 months. We also note that the approach to implementing this will depend on the decision of the Interim Code Panel on a proposal to amend the Wholesale Retail Code. 3 We would, however, appreciate assurance that Ofwat will ensure that the rules relating to this issue do not negatively impact on the policy approach which companies take in terms of providing refunds to customers in the event of overpayment.

- 2.9 One example of this relates to the provision of rebates where it is identified that surface water drainage services have not been provided to a customer. CCWater has recently successfully negotiated with companies to provide retrospective rebates in such cases. It is important that this progress is not undermined as a result of the establishment of rules to address the issue of back billing.

Q13: Do you agree with our approach to Board assurance? And Do you agree with our preference for wholesalers to submit (where appropriate) a statement of significant changes for primary wholesale charge at least three months before final wholesale charges are published?

- 2.10 The Water Act 2014 sets out a requirement for CCWater to be a consultee in terms of water company charging proposals. This is also set out in Defra's guidance to Ofwat.
- 2.11 In view of this we believe it should be a requirement that the statements include explicit assurance that companies have consulted with CCWater in an appropriate and timely manner. This would also ensure consistency with the Charges Scheme rules issued by Ofwat in 2015.
- 2.12 The consultation document highlights the value of companies consulting with others in developing wholesale charges in order to better understand the needs of their customers. It goes on to suggest that wholesalers may wish to seek the input of their Customer Challenge Groups in achieving this.
- 2.13 We are supportive of this and will assist CCGs in engaging with companies on this issue. However, in order to avoid confusion and potential disputes, Ofwat's rules should be clear that CCWater is the statutory consultee on charging matters and companies must reflect this in their approaches to consultation and engagement.
- 2.14 We fully support the proposal for wholesalers to submit a statement of significant changes for primary wholesale charges at least three months before final wholesale charges are published. We would ask that companies are also required to provide this statement to CCWater at the same time.

Enquiries

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