



# Wholesale and Retail Charges - A Consultation

An Ofwat consultation

## 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 the future approach to wholesale and retail charges.

## 2 Our response

### Keeping bills stable for customers

**Q1 Do you agree that we should set rules for bill stability, for charges for non-contestable services?**

**Q2 Do you agree with our initial preference for companies to carry out a proportionate impact assessment and develop a strategy for handling any incidence effects of significant changes to charges, rather than be more prescriptive?**

- 2.1 Bill stability is very important for customers and there would be benefit in setting out rules relating to this in respect of non-contestable services.<sup>1</sup>
- 2.2 We support companies being required to carry out a proportionate impact assessment in developing their strategies for handling incidence effects resulting from changes to charges. However, as part of this process companies should be specifically required to engage with, and take account of, the views of CCWater as the organisation which represents consumers. This would ensure that customers' views, including those who will be negatively impacted, can be considered and that mitigation measures, such as the phasing in of changes, are explored and, where appropriate, put in place to protect affected customers from unacceptable and unaffordable outcomes. This approach would also facilitate the sharing of best practice across the industry.
- 2.3 This process would link well with the existing requirement for companies to consult with CCWater on wider charging issues and provide assurance to Ofwat that they have done so.
- 2.4 We recognise the concern that setting stability restrictions for contestable charges could stifle market development. However Ofwat may wish to consider whether it should require incumbent non-household retailers to consider this

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<sup>1</sup> Contestable services are those that will be subject to market competition from April 2017. Non-contestable services will not.

issue when setting default tariffs.

## **Evolving charges over time to improve their cost reflectivity where this will benefit customers**

**Q3 How material are the incidence effects likely to be if we were to set specific requirements for cost reflectivity?**

**Q4 Would it be appropriate for us to prioritise cost reflectivity in certain areas?**

**Q5 Do you agree with our preference for initially setting high-level requirements for cost reflectivity?**

**Q6 Do you have views on any specific rules we should set to promote cost reflectivity?**

- 3.1 Water and sewerage charges are currently subject to considerable averaging within company areas. In many cases cross subsidies currently flow between customers, to a greater or lesser degree, in both directions. As such there would be little benefit to consumers overall in unwinding these cross subsidies simply because they are inherent with the current charging structure. This is particularly true given the costs and incidence effects which might be associated with making such changes.
- 3.2 In some cases making charges more cost reflective might result in outcomes which could be considered negative for consumers as a whole, or for vulnerable groups in particular, and may undermine the long-term sustainability and legitimacy of both the water industry and the regulatory regime.
- 3.3 For example, the Walker Review of Water and Sewerage Charging<sup>2</sup> noted that the cost borne by customers who deploy rainwater harvesting facilities does not generally reflect their burden on the sewerage network. However, the review concluded that it would not be appropriate to require any improvement in the cost reflectivity of such charges currently.
- 3.4 Similarly, it is often the case that the more financially vulnerable customers are more costly to serve. Lower income customers often rely on facilities to make frequent, low value cash transactions in order to help them budget for the payment of charges. In sectors where higher costs associated with such facilities have been routinely passed on to consumers the existence of a 'poverty premium' has been noted. Paying higher costs for utilities and credit can add up

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<sup>2</sup> "The Independent Review of Charging for Household Water and Sewerage Charges" 2009  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/69459/walker-review-final-report.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/69459/walker-review-final-report.pdf)

to 10% on the minimum household budget.<sup>3</sup>

- 3.5 It is important that any movement towards greater flexibility is prioritised based on the ability to achieve overall consumer benefit. In evaluating overall benefit any associated costs and impacts must also be carefully considered. Relevant considerations will include:
- the incidence effects of changes in prices and how these would fall in terms of the distribution of costs to vulnerable customers; and
  - any increased infrastructure, operating or administrative costs which might be associated with implementing the change (for example, the costs of smart meters to enable a more sophisticated understanding of water usage patterns, or assessing the surface area of household properties in order to better relate domestic charges for surface water drainage to the burden placed on the system).
- 3.6 In addition there will also be a need to have a clear understanding that the proposed changes to charges will actually realise the intended objective. It is not enough, for example, to know that a change will send an appropriate price signal to consumers. There should also be an adequate understanding that, in practice, this will drive the desired consumer behaviour. This will involve consideration of potential barriers to consumers acting as rational economic consumers, both in terms of their engagement with their water charges and willingness to modify behaviours as well as their ability to make any physical changes necessary to follow the price signal.
- 3.7 If Ofwat set out high level requirements they will need to take account of the issues set out above in order to ensure that customers' interests are best served and that the long term sustainability of the water industry is safeguarded. It is important that policy considerations, cost reflectivity and customer impact are appropriately balanced.
- 3.8 Ofwat will need to consider the implications of its approach in respect of the distribution of costs associated with new appointments and variations (NAVs). Will it help to deliver cost reflective and transparent bulk supply pricing for NAVs arrangements?
- 3.9 Water and Sewerage companies are better placed to comment on potential incidence effects which might arise from changes.

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<sup>3</sup> Addressing the Poverty Premium” Consumer Futures 2013  
<http://www.consumerfutures.org.uk/files/2013/06/Addressing-the-poverty-premium.pdf>

## Standardising wholesale charges

**Q7** How material are the incidence effects likely to be for different types of standardisation?

**Q8** Do you agree with our preference for some level of standardisation of the methodologies that companies use to derive wholesale charges, but for us not to design and specify companies' tariffs?

**Q9** Would it be appropriate for us to prioritise standardisation for certain charges? If so, which ones and why?

**Q10** Do you have any views on what specific rules we should set to promote standardised charging methodologies?

- 4.1 The extent of these incidence effects or where they would fall is not clear. On that basis we would need to have further information on these issues before supporting a particular approach. In addition, the consultation does not examine how the issue of standardisation might apply in Wales, given the different approach to competition. It is essential that the potential benefits and impacts of the approach are identified and considered for both England and Wales taking account of the different regimes that will apply.
- 4.2 Subject to these concerns we recognise that moving towards a common approach to calculating wholesale tariffs might bring benefits for multi site non-household customers wishing to act as their own retailer, making it easier to understand their input costs. It might also reduce barriers to market entry as complexity would be reduced.
- 4.3 Moving towards a more standardised presentation of tariffs, such as through a menu framework would also help to reduce complexity and encourage cross fertilisation in terms of tariff development.
- 4.4 In Wales it seems possible that the standardisation of charges could result in 'all pain and no gain'. Customers may face incidence effects arising from changes but would not derive any benefit given the different approach to competition being followed there. The consultation does not address the question of whether a different approach could or should apply for Wales.
- 4.5 The consultation document suggests that companies in England and Wales might adopt the charging model currently used by Scottish Water. If movement towards standardisation is confirmed to be beneficial for customers it would perhaps be more appropriate for water companies within England to agree areas of standardisation relevant to their own operating environment and legal and regulatory framework? As above, the extent to which companies in Wales should also move towards a standardised approach needs to be examined separately.

## Information and governance

**Q11 Do you agree with our preferred option of assessing wholesale price limit compliance through the regulatory accounts?**

**Q12 What would be a suitable data set to support an assurance that charges have no undue preference or discrimination?**

- 5.1 We believe an ex-ante approach would have benefits over and above relying on companies' risk and compliance statements alone. Companies could be required to provide an assurance statement ahead of implementation, in line with the process now followed in respect of Charges Scheme approval, helping to avoid potential problems before they occur.

**Q13 Do you agree that the same governance process for assessing wholesale charges can be applied to household retail charges?**

- 5.2 The response to Q11 and Q12 above apply here also.

**Q14 Do you agree with our preferred option of including considerations of non-household retail charging governance into the annual risk and compliance statements (RCSs), and to check any charges levied by agreement?**

- 5.3 This seems a reasonable approach. It would be appropriate for this to apply to all non-household retailers, whether incumbents or entrants.
- 5.4 Ofwat may need to consider how offerings which flex both service and price will be assessed to ensure they are at least as good as the default tariff.

**Q15 Do you agree with our preferred option of no longer publishing charges on behalf of companies?**

- 5.5 An important consideration is whether this approach meets customers' information needs. There is, perhaps, a danger that customers might perceive this as Ofwat leaving a void in terms of being an independent source of information on charges.
- 5.6 There are also potentially implications for the ability of CCWater, the media and others to obtain comparative data, which is seen to be trusted, in order to support timely communication with customers about prices.

- 5.7 For the first time this year Ofwat has passed the responsibility for the announcement of bill increases to Water UK. This has meant it has been slightly harder to clarify issues relating to these charges ahead of their publication, because Ofwat no longer compiles full information for its own purposes. As Ofwat did not have direct control over the arrangements for publication of bill data it also meant that bills arrived with some customers before the announcement was made.
- 5.8 If Ofwat do not take responsibility for the publication of charges in the future then guidance or rules on the approach to be taken by the Industry should be issued by Ofwat to ensure customers' information needs are appropriately met.

## Enquiries

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