



## Consultation on Charging Guidance to Ofwat

# 1 Executive Summary

- 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 Government's Charging Guidance to Ofwat.
- 1.3 Overall we are supportive of the guidance. We have however commented on a number of issues including the following key points:
  - In evaluating the benefits of innovative tariffs (such as rising block) it will be important to also consider customer affordability and acceptability;
  - There are limitations around what can be delivered through current social tariff arrangements. Customers see some advantages in a publicly funded, industry wide tariff;
  - We support the recovery of sustainable drainage system maintenance costs through the surface water drainage charge, but it will require further consideration about how this could be appropriately achieved;
  - We suggest that the guidance adds bill simplicity to the transparency and customer focussed charging objectives;
  - It is important that the implementation of site area based charging avoids sudden and significant bill increases;
  - Removing the restriction on public bodies being helped through the site area based concessionary charges scheme would lead to public services being directly subsidised through water bills. As such we believe it would be important to establish whether this approach is supported by customers before reaching any decisions on this point;
  - We feel that the guidance on charges in relation to the retail market is broadly appropriate. Customers are keen to avoid complicated tariffs.
  - We would expect customers transferring from a retailer exiting the market to another retailer to remain on their existing tariff for a defined period. This would give the customer time to investigate switching before any increases in charges are introduced by the new retailer. The development of upstream competition should seek to allow for a tariff structure that minimises potential complexity (and the burden this could place on a market operator and companies), as well as potential confusion for customers.

## 2 Our response

**Q1: Do you agree that the Government’s overarching objectives for charging should be fairness and affordability, environmental protection, stability and predictability and transparency and customer-focused service?**

**Q2: Are there any other comments that you would like to make about the Government’s overarching objectives for water and sewerage charging set out in Chapter 2?**

- 2.1 CCWater agrees that these are the right overarching objectives relating to charging for water and sewerage services.
- 2.2 In evaluating the benefits of innovative tariffs (2.9) it will be important to also consider customer affordability and acceptability. CCWater’s 2013 research<sup>1</sup> into water saving found that the reaction to both rising block and seasonal tariffs was negative overall. Respondents did not like the concept of a tariff being used to influence their water usage and felt this might unfairly penalise various groups in society.
- 2.3 As the guidance notes, small-scale trials can play an important role in evaluating the extent to which price signals influence customer behaviour in practice and how acceptable such tariffs are to customers. Data from trials which have been on-going for some time will also be useful in identifying how behaviour is influenced over the longer term, and can help minimise any influence potentially introduced through the ‘Hawthorne/observer effect’.

**Q3: Do you agree with the Government’s policy priorities for charges schemes for household customers outlined in Chapter 4?**

- 2.4 CCWater supports the Government’s policy priorities outlined in Chapter 4.

### Social tariffs

- 2.5 CCWater has been working with water companies to establish local social tariff schemes (4.4) which are acceptable to customers and deliver maximum customer benefit with the funding available.
- 2.6 However, the help which can be delivered is inevitably limited by customers’ willingness to pay for this through water bills. Research by companies and CCWater<sup>2</sup> has, in most cases, pointed to customers being willing to contribute £2 or less per annum to fund such tariffs. This might release up to around £40

<sup>1</sup> CCWater Research ‘Research into saving water - the experiences and perceptions of customers and their households’ DJS Research (2013)  
<http://www.cewater.org.uk/wp-content/uploads/2013/12/Research-into-customer-water-saving.pdf>

<sup>2</sup> CCWater Research - ‘Cross Subsidies and Social Tariffs - The consumers perspective’ Creative Research (2010)  
<http://www.cewater.org.uk/wp-content/uploads/2013/12/Cross-subsidies-and-social-tariffs-June-2010.pdf>

million across the industry. However estimates from different sources suggest the cost of delivering a comprehensive affordability solution could be in the region of £400m<sup>3</sup> <sup>4</sup>. There is also potential for customer confusion, particularly in areas where customers are served by different water and sewerage companies, given that companies have developed very different schemes and, in some cases, have not yet been able to secure customer support to introduce a tariff.

- 2.7 Our 2010 social tariff research<sup>2</sup> found that customers see advantages in an industry wide scheme, which would ensure the same help is available to customers wherever they live. They also felt there would be benefit in any scheme being funded through Government, allowing costs to be spread across the public more widely and based on ability to contribute. This public funding approach has already been used to provide annual bill reduction of £50 to South West Water’s household customers to address the high level of bills faced by those customers due to legacy issues.

#### Sustainable drainage

- 2.8 Sustainable drainage systems (SuDs) can play an important role in contributing to flooding strategy. We note the guidance that maintenance costs should be recovered through surface water drainage charges. We feel this is a simple and sensible approach which is in line with the other principles outlined in the draft guidance. It will, however, require some consideration of how this can be achieved in a manner which is appropriately cost reflective.

#### Transparency and bill simplicity

- 2.9 We agree that transparent and customer-focussed charging (4.13) is a policy priority. It may however be helpful for the guidance to be more specific about the extent to which companies should be expected to separate out the different elements which make up the overall charge. In doing so it would be helpful for the guidance to reflect the fact bill simplicity is also important to customers.

**Q4: What are your views on the guidance on charges schemes for non-household customers provided in Chapter 5?**

- 2.10 We support the guidance set out on charges schemes for non-household customers and agree that the same key principles apply to both household and non-household customers. We also agree that in setting charging rules Ofwat should have due regard to the broad diversity of non-household customers and their differing needs.

---

<sup>3</sup> ‘The Independent Review of charging for household water and sewerage charges - Final Report’ (2009) <http://archive.defra.gov.uk/environment/quality/water/industry/walkerreview/documents/final-report.pdf>

<sup>4</sup> CCWater Research - ‘Water Affordability in England and Wales’ University of York (2009) <http://www.cewater.org.uk/wp-content/uploads/2013/12/Exploring-the-potential-of-the-tax-and-benefits-system-to-help-with-water-affordability.pdf>

## Cost-reflective surface water drainage charges

- 2.11 Implementing site area based charging systems can allow for a fairer approach to charging and help incentivise more sustainable drainage arrangements. However, where this is undertaken it is vital for customers, including those which directly benefit the public interest, to avoid sudden and significant bill increases. This can often be achieved by ensuring changes in charges are phased in over an appropriate period for impacted customers.
- 2.12 Our 2010 research<sup>2</sup> found that customers also support the principle of bill concessions for those not-for-profit organisations which provide a clear benefit to their local communities. As such, we supported the introduction of the concessionary scheme for community groups.
- 2.13 The consultation document indicates that consideration is now being given to reviewing the current guidance on the concessionary scheme (5.7). We would welcome the opportunity to be involved in discussions on this issue.
- 2.14 Public bodies are currently excluded from receiving support through such concessionary schemes. Removing this restriction would lead to public services being directly subsidised through water bills. As such we believe it would be important to establish whether this approach is supported by customers before reaching any decisions on this issue.

**Q5: Do you think the guidance on charges in relation to the retail market in Chapter 6 will be appropriate for regulating charges when the new retail market for non-household customers opens in April 2017? If not, how could it be improved?**

- 2.15 We feel that the guidance on charges in relation to the retail market is broadly appropriate. However in view of the findings of our ‘Uncharted Waters’ research 2014<sup>5</sup> we would welcome more specific protection for customers in certain key areas. While support for standardised or bespoke contracts differs by business size, all non-household customers want to avoid complex tariff structures.
- 2.16 We agree that Ofwat should be expected to keep the impact of retail tariffs on SMEs and rural customers under review (6.7). For the retail market to be a success it needs to deliver for all customers, not just those “high-value” non-household customers that may be the most attractive to retailers.

---

<sup>5</sup> CCWater Research - ‘Uncharted Waters: Non-household customers’ expectations for competition in the water industry.’ Accent Research (2014)  
<http://www.cewater.org.uk/blog/2014/06/19/uncharted-waters-non-household-customers-expectations-for-competition-in-the-water-industry/>

- 2.17 The backstop protection of a maximum level of price and a minimum level of service is an important piece of consumer protection. We recognise the concern that the exited retailers price may be unsustainable. Nevertheless, we would expect a transferred customer to remain on the existing, protected, tariff level for a defined period (three months) before any phased increases could be made. This would give the customer time to investigate switching to a retailer of their choice, should they wish to do so. Those buying the exiting retailer's 'book' should factor this requirement into the purchase price.

**Q6: Do you have any comments on the Government's proposed approach to upstream reform, as described in Chapter 7, and the high level principles set out here?**

- 2.18 The scale and complexity of upstream competition is not yet known. Caution will be needed as progress is made. In particular it will be important to understand the likely impact on customers which would result from these changes.
- 2.19 The introduction of competition into any element of the upstream wholesale business could lead to a range of different wholesale tariffs. For example, there could be separate wholesale tariffs for water treatment, water distribution and water resources, especially if these three elements of the wholesale 'upstream' business are opened up to a competitive market. The development of upstream competition should seek to allow for a tariff structure that minimises potential complexity (and the burden this could place on a market operator and companies), as well as potential confusion for customers. We consider that further consultation on this issue will be needed before decisions are reached on how the upstream market might operate.

**Q7: What are your views on the guidance on charges in relation to developers provided in Chapter 8?**

- 2.20 We support the proposal for Ofwat charging rules to replace the current arrangements based around companies' assessment of 'reasonably incurred' costs. We agree that this will improve transparency and help reduce the number of developer complaints and disputes concerning this area of charges.
- 2.21 We note that Government will be preparing further detailed guidance to Ofwat on this issue and would be happy to contribute to the development of this guidance.

**Q8: Do you have any other comments about the policy objectives for water and sewerage charging set out in the Charging Guidance?**

**Q9: Is there anything else you would like to add to your response?**

- 2.22 We have nothing further to add to our comments above.

## Enquiries

Enquiries on this submission should be directed to:

Andrew White  
Senior Policy Manager  
Consumer Council for Water  
2<sup>nd</sup> Floor  
Three Piccadilly Place  
Manchester  
M1 3BN

Tel: 0161 200 8540

Email: [andrew.white@ccwater.org.uk](mailto:andrew.white@ccwater.org.uk)