



# Consultation on Charging Guidance to Ofwat

**A Welsh Government Consultation**

**Consumer Council for Water Response**

**October 2015**

1	<b>Executive Summary</b>
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 Welsh Government’s charging guidance to Ofwat.
1.3	<p>Overall we are supportive of the guidance. We have, however, commented on a number of issues including the following key points:</p> <ul style="list-style-type: none"> <li>• There are limitations around what can be delivered through current social tariff arrangements. Customers see some advantages in a publicly funded, industry wide tariff;</li> <li>• In evaluating the benefits of innovative tariffs (such as rising block) it will be important to consider their effectiveness to achieve their objectives, as well as customer affordability and acceptability;</li> <li>• We agree that, in setting charging rules in respect of bulk supplies, Ofwat will need to ensure costs reflect the environmental and economic costs of the trade and that these charges should not be subsidised by domestic customers; and</li> <li>• We support the proposal for Ofwat charging rules to replace the current arrangements for developer charges.</li> </ul>
1.4	The figures in parentheses within the text refer to relevant paragraphs within the consultation document.
2	<p><b>Our response</b></p> <p><b>Guidance on Charging Schemes for Household Customers</b></p> <p>Fair and affordable water services</p>
2.1	<p>We are pleased that this guidance supports the Welsh Government’s commitment to reduce the number of people who are faced with affordability problems in line with the Water Strategy for Wales. We agree that Ofwat’s approach to regulating charges should take account of affordability issues in Wales. CCWater will continue to work with Welsh Government, Ofwat and others to achieve better outcomes for water customers in Wales and to contribute to the delivery of the Welsh Government’s Action Plan.</p> <p>Social tariffs</p>
2.2	CCWater has been working with the water companies in both Wales and England to establish local social tariff schemes (4.6) which are acceptable to customers and deliver maximum customer benefit with the funding available.

2.3	<p>However, the help which can be delivered is inevitably limited by customers' willingness to pay for this through water bills. Our 2010 social tariff research<sup>1</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.</p> <p><a href="#">Payment Schemes</a></p>
2.4	<p>We agree that offering a wide range of payment options is helpful to customers, particularly those who struggle to pay, and welcome the guidance to Ofwat in this respect. (4.12) We also agree that it is important that all relevant assistance measures and charging options are presented clearly in companies' charges schemes.</p>
2.5	<p>We also agree that not all households will want, or be able, to pay their bills by Direct Debit (4.13). We note that Welsh Government considers it critical that low income customers are not disadvantaged and do not end up paying more in the event that they do not pay bills by Direct Debit.</p>
2.6	<p>It would be helpful to understand whether the expectation is that these customers should pay no more than they do now, or no more than customers who do pay by Direct Debit. We agree that the individual water customers who make use of higher cost payment options should not have to bear the direct cost of these. However, a number of companies have been able to reduce their overall costs by providing a small financial incentive to those customers able and willing to move to Direct Debit payment. This has meant cost savings being passed back to customers, including some for whom affordability is an issue, rather than fully retained by the company. We would welcome clarification from Welsh Government on the acceptability of this approach where it has no negative cost impact for those customers unwilling or unable to pay by Direct Debit.</p> <p><a href="#">Natural Resource Management Incentives</a></p>
2.7	<p>In evaluating the benefits of innovative tariffs (4.23) it will be important to also consider customer affordability and willingness to accept such tariffs. CCWater's 2013 research<sup>2</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. The efficacy of novel tariffs may also be affected by the relative price and income inelasticity of demand for water.</p>
2.8	<p>As the guidance notes, small-scale trials can play an important role in evaluating the extent to which price signals influence customer water usage behaviour in practice and how acceptable such tariffs are to customers. Data</p>

<sup>1</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>

<sup>2</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>

	<p>from trials which have been on-going for some time (such as those undertaken by a number of water companies in the South of England) 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’.</p> <p><a href="#">Metering</a></p>
2.9	<p>We support the requirement for companies to effectively manage any transition to universal metering. However we do not think this should be a default option for the future. Companies should consider universal metering in the context of their water resource circumstances and alongside other options for managing the supply demand balance. For example doing more to promote optional metering. We support Ofwat’s “best value” approach to balancing water supply and demand; with metering, leakage reduction and water efficiency programmes and resource development integrated into long term water resources strategies that ensure that public water supplies are safeguarded for existing and future consumers in the most sustainable way. In the event of any compulsory metering in Wales appropriate safeguards would need to be put in place to protect low income customers, particularly families, who may face significant bill impacts in moving from a rateable value based charge to one based on usage. Transitional arrangements to manage the effect of change on some customers would also be needed to improve customer acceptance.</p>
	<p><b><a href="#">Guidance on Charges Schemes for non-household customers</a></b></p>
2.10	<p>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.</p> <p><a href="#">Market Reform</a></p>
2.11	<p>We fully support Welsh Government’s expectation that Ofwat should ensure customers served wholly or mainly in Wales do not make contributions towards the costs of Market Reform under the Water Act 2014. It will be important to ensure services to customers are of a high standard and adaptive to their needs wherever they live. CCWater will continue to monitor the quality of the offering provided to water customers in Wales and work with other stakeholders to help ensure that customers are not disadvantaged by the absence of competition in the retail market.</p> <p><a href="#">Bulk Charges</a></p>
2.12	<p>We agree that in setting charging rules in respect of bulk supplies Ofwat will need to ensure costs reflect the environmental and economic costs of the trade and that these charges should not be subsidised by domestic customers.</p> <p><a href="#">Developer Charges</a></p>
2.13	<p>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.</p>

2.14	We note that Welsh Government will be preparing further detailed guidance to Ofwat on this issue and would be happy to contribute to the development of this guidance.
------	--

## 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)