



CCWater's response to Water Services Regulation Authority (Ofwat) consultation:

Proposal to vary South West Water's
area of appointment to include the
Isles of Scilly.

Introduction

- 1.0 The Consumer Council for Water (CCWater) is the statutory consumer organisation representing water and sewerage consumers in England and Wales. We welcome the opportunity to comment on this consultation on Ofwat's proposal to vary the licence of South West Water Services Limited (SWW) so that it becomes the appointed water and wastewater company for the Isles of Scilly (IoS).
- 1.1 The IoS currently lie outside the area covered by the regulated water and wastewater industry in England and Wales. The proposed variation in SWW's licence is also dependent on changes to legislation, in particular the Water Industry Act 1991 'the WIA'. It is intended that the necessary changes in legislation and the variation of SWW's licence will place the IoS within SWW's area from April 2020

Executive Summary

- 2.1 CCWater recognises the financial and environmental drivers behind Ofwat's proposal. Substantial investment is required on the IoS to bring its water and wastewater infrastructure up to the standards on mainland England, and that will meet water quality and environmental standards which are being extended to cover the IoS. The level of investment needed is beyond the resources of the current service providers and could only be financed through vastly increased charges to their customers.
- 2.2 DEFRA has been working for a number of years to address the issues on IoS and to seek a solution to funding the necessary improvements. In 2016 it sought expressions of interest from regulated water companies in England and Wales to run the water and wastewater services on the islands. Only SWW responded and has since carried out due diligence and prepared a plan for including the IoS within its area and for the required investment. It has included this in its Business Plan submitted to Ofwat as part of its current Price Review (PR19).
- 2.3 The proposal in this consultation is unusual as it involves the variation of a licence to include an area which is currently outside the regulated industry in England and Wales, rather than the transfer of an area already served by an existing incumbent. When considering such variations CCWater would normally look to ensure there is benefit to new customers, in terms of price and/or service, and that there is no detriment to existing customers.
- 2.4 In this case the residents of the IoS will see the benefit of the transfer of infrastructure to SWW but this will be at the expense of higher bills to SWW's existing customers. This cost is not insubstantial and CCWater has pressed SWW to show that its customers have been adequately informed and engaged on the proposal and that they have established its acceptability with customers.
- 2.5 Overall, CCWater accepts that the proposal to extend SWW's area to include the IoS is the most appropriate solution to the issues on the IoS and the future provision of water and waste water services on the islands that can meet regulatory requirements in terms of the quality and constancy of supply, and environmental protection. In general terms we therefore support the proposal but this is subject to the following areas which need further work or clarification;
 - The need to establish how unmeasured charges will be set and managing the expectations of customers about future charges,

- Ensuring that new customers on the loS are treated the same as current SWW customers and not given any undue preferential benefit.
- Managing the views of existing SWW customers, particularly those who do not support bearing the costs of adopting the loS,
- Ensuring that Non-Household (NHH) data is correct and that all eligible NHH customers are informed about and able to engage with the retail market when SWW takes over.

3.0 Comments on Consultation

- 3.1 CCWater represents customers' interests. The proposal in this consultation will affect two groups of customers - those on loS and SWW's current customer base. Extending SWW's area to include the loS will impact these groups differently, with much of the benefit of the proposal going to the loS and dis-benefit going to SWW's customers.
- 3.2 There are five main islands in the loS with a population of about 2,200 which rises to around 5,000 during the tourist season with around 100,000 tourists visiting the islands each year. Water and wastewater services are currently provided by the Council of the loS on St Mary's and Bryher, and by the Tresco Estate on Tresco. Water services are provided by the Duchy of Cornwall on St Martin's and St Agnes. Properties not connected to these services are served by private water supplies - some through shared systems - and private wastewater arrangements.
- 3.3 We are aware of, and have been involved with, the engagement that has been carried out to date on the loS, by both SWW and members of the DEFRA working group - which includes the various councils on the islands and stakeholders. We are encouraged that SWW has an engagement plan for further work on the loS and to inform its existing customers about the proposed adoption.

4.0 Levels of Service

- 4.1 Once the loS become part of SWW's area customers there will benefit from the protections and service standards offered by regulation and by SWW's various Codes of Practice. While the consultation gives no details of any current service standards customers on the loS enjoy, the assumption is that levels of service, particularly those for customers in vulnerable circumstances, will improve. This will include access to advice and advocacy services provided by CCWater.
- 4.2 Water quality and environmental protection obligations will increase and it is the costs of these improvements that is the main driver of the proposal.
- 4.3 Residents currently on private water supplies and wastewater services will have the option to connect into SWW's adopted systems under the terms of the WIA. Ofwat has separately confirmed that SWW will not be exempted from the statutory obligations under the WIA and so requests for connection, and the expectations of residents will need to be carefully managed to minimise any dissatisfaction that may be caused as a result of the pace of infrastructure improvements. We are reassured by Ofwat's comments in the consultation that appropriate, temporary regulatory provisions will be made to address the potential issue over the time it could take to effect customers' requests to connect, and look forward to seeing what is proposed. We do not expect residents to receive any different

treatment with regard to costs than customers elsewhere in England and Wales, and note SWW's commitment to ensure this is not the case.

5.0 Billing and Prices

Household customers

- 5.1 On transfer to SWW, customers on the loS will pay the same charges as SWW's existing customers on the mainland. The impact of this change will depend on who provides customers' water services at present - The loS Council, Tresco Estates or the Duchy of Cornwall - but the information set out in Ofwat's consultation suggests that no metered customers will see an increase. The position is more complicated for customers of the Council who currently pay a flat-fee and are not metered. This flat fee is not based on rateable value (RV) as these are not used on the islands. On transfer, SWW will not have the option to offer a universal flat-fee which means that unmeasured customers will see changes in their bills and this could mean many will see an increase, which could be sizeable.
- 5.2 SWW is proposing to install smart meters for all customers as part of its investment plan. While the company cannot compulsorily meter customers under present legislation, unmeasured customers will have the option to switch to metered charges. SWW will need to consider how they engage with islanders over the installation of smart meters, as we are aware these have attracted some negative customer reaction in other areas of England.
- 5.3 It is not clear from the consultation how charges for unmeasured customers on the loS will be calculated. It is suggested this will be based on a system to approximate to the RV-based charges used on the mainland. The details of this, how it will be implemented and the impact on individual customers, are not currently identified. We would like to see some definite proposals put forward for consideration as early as possible. We will need to be reassured that unmeasured customers will not see large variations in their bills as a result of the change in charging regime, and that suitable mitigation measures will be put in place if necessary to prevent this. Again, SWW will need to manage customers' expectations carefully through effective engagement on the islands.
- 5.4 It is unclear if the current Government contribution of £50 per annum will continue beyond 2020. While this will have an effect on bills, we note that it has a wider effect on SWW customers' views on the acceptability of the company's Business Plan for PR19. Without the £50 the acceptability of the plan is low, and this would suggest that support for the proposed adoption of the loS would also drop. We urge Ofwat to seek early clarification from Government about the future of the £50 contribution.

Impact on SWW's existing customers

- 5.5 The impact of the adoption of the loS on SWW's existing customers is put at £2.10 a year for the period 2020-25 and at £4.20 per year between 2025 and 2030. We note that for the period 2020-25 the increase is more than offset by increased efficiency and other savings forming part of SWW's Business Plan, that will see an overall reduction in household customers' bills of 11% before inflation. SWW has provided evidence of its engagement with customers on the adoption of the loS which shows support for the proposal and acceptance of an average increase in bills of £3.91 a year. The projected increase is below this amount for 2020-25 but rises above it from 2025, although remains within the confidence interval of the survey.

5.6 While the additional costs of investment in the loS will not represent an increase in SWW's bills, they do mean they will not fall as much, in real terms, as they would have done without this extra programme. There is little tangible benefit to SWW's existing customers in the adoption of the loS. While there will be environmental improvement that may bring some wider benefit in terms of tourism to the southwest, that is difficult to quantify. SWW will need to take into account the sizeable minority of its customers who did not support bearing the costs of the proposal in its continuing engagement with customers.

Non-Household Customers

- 5.3 Unlike household customers, on adoption of the loS eligible non-household (NHH) customers will not become customers of SWW but will have the option to choose their retailer from any within the open marketplace. SWW, as wholesaler, intends to install smart meters at all business premises.
- 5.4 Some NHH customers are currently identified but we are aware that many residents on the loS engage in commercial activities as part of the tourism industry. SWW will need to identify any additional premises that need to be classified as NHH prior to April 2020 so that they can be made aware of their status and be able to engage in the retail market.
- 5.5 It is not clear from the consultation what plans there are to ensure all NHH customers are identified and are registered with a retailer at the point they become eligible. We would expect to see a plan in place to engage with NHH customers to make them aware of their position well before April 2020 and which sets out their options of retailer. It is vital that NHH data is accurate at the time of transfer. Experience of market opening in England showed that incorrect classification of premises was a major driver of dissatisfaction and complaint. SWW should take every care to ensure this is not repeated on the loS

Enquiries

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