

## **Ofwat's future strategy for customer charges for water and sewerage services**

### **Consultation response from Simon Beal, Beal Consultants**

#### **OVERVIEW**

The current method of unmeasured charging, using rateable values is clearly outdated and provides no incentives for customers save water. Moving to a new system of charging, whether unmeasured or measured, will always result in incidence effects, with winners and losers. Water companies and the Regulators must assess whether the benefits outweigh any adverse impacts.

Metering itself does not save water, it simply provides customers incentives to reduce their consumption and waste. If customers have other motivations, such as being "green" they would be able to save an equivalent, or larger, amount of water without the expense of metering.

The metering policy adopted by a company should be driven by individual company needs and drivers, particularly their supply-demand balance. Companies should make more use of web-based information systems, possibly with online billing, to enable their measured customers to benchmark their water use. Such a system should also be linked into company water efficiency sections of their website to help customers identify where they could save water.

#### **SPECIFIC ISSUES**

- ④ The current RV based charging for unmeasured customers will become unsustainable when the level of meter penetration reaches greater than approximately 85%. At this point the company should review which properties remain on the unmeasured tariff, and if an alternative or simplified tariff is more appropriate. For example, if the majority of the properties are flats, it may be appropriate to move to a fixed charge.
- ④ Companies are currently permitted to undertake metering on change of occupancy. This effectively "hides" the incidence effects, but is significantly more expensive and less efficient means to achieve widescale metering than metering on a street-by-street basis.
- ④ Metering policy should be driven by the supply-demand position of the company, using the Economics of Balancing Supply and Demand approach to identify the least cost mix of supply-demand measures.
- ④ Meter location should be considered carefully; external meters help identify, and hence reduce, supply pipe losses, but are very difficult for customers to read and monitor their own consumption.
- ④ If the main driver for metering is to balance supply-demand then it would be expected that companies would minimise the standing charge to maximise the volumetric element and hence the impact on demand. This approach, however, increases the instability of revenue raised by the company.
- ④ Metering may increase consumption in some circumstances; some customers may have an "I'm paying for it so I will use as much as I want" attitude.
- ④ Given the relatively low level of meter penetration of most companies, it is considered that alternative tariffs should not be introduced until customers are comfortable with metering as a fair way of paying for water. The additional demand savings resulting from a seasonal or rising block tariff are likely to be significantly less than the initial saving on metering.
- ④ Alternative tariffs should be trialed in geographic areas, and not offered on a voluntary basis.
- ④ Companies should focus on providing metered customers with more information on the water use, making use of web-based technology, to allow them to benchmark their consumption and identify areas where they could save water.