



**BY EMAIL**

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Dear Mandy,

**CONSULTATION ON FUTURE STRATEGY FOR CUSTOMER CHARGES**

Thank you for the opportunity to respond to this consultation. Our views on the issues raised are as follows:

**Unmetered Charges**

Under the projections shown in the consultation paper, the majority (53%) of Bristol Water's customers would still be paying by unmetered charges in 2030, and in this scenario we do not believe it would be acceptable to continue to base unmetered charges on Rateable Values.

We believe that Rateable Value is an unsustainable method of charging customers in the long run. The RV system was abolished in 1989, in practice most valuations were last revised in the mid 1970s, and therefore were made around 30 years ago.

We believe the only feasible alternative to Rateable Value charging would be to base unmeasured charges on council tax bands. These are a more current measure of the value of a property, and can be reviewed and appealed as necessary.

However, we believe that a movement to charging on the basis of council tax bands would create the following problems:

*Incidence Effect* – there would be large numbers of customers seeing a reduction or increase in their bill as a result of the change. This would lead to customer dissatisfaction and complaints.

*Transition Costs* – the changes to billing systems to facilitate the change would be significant.

*Ongoing Costs* – we believe that an unmeasured system based on council tax bands would increase billing costs beyond the first transition year. This is because changes to council tax bands can be made, resulting in adjustments to the billing system.

*Single Occupier Discount* – companies would need to consider whether the 25% discount on council tax applied to single occupiers would be applied to water bills. If it were, this might reduce the incentive to switch to metered charging. If it were not applied this would produce complaints about incompatibility with the council tax system. Certainly a unified approach would have to be taken by all water companies to the issue.

In conclusion, we feel that the likely costs and problems caused by a change are not justified, and that the current system should be preserved until effective universal metering is achieved.

We support Ofwat's proposed no change to the RV modifiers.

### **Metering**

In our Strategic Direction Statement we have stated our intention to move to universal metering as soon as possible. In our draft water resources plan we anticipate achieving effective full metering by 2035. We believe this represents the fairest way to charge our customers, will help us to manage demand, to monitor and reduce leakage, and to introduce innovative tariffs.

We have received high levels of applications for meter optants since the increase in charges at PR04, which caused an increase in costs, which was part of the basis of our interim determination of K in 2007. Early evidence from the recent dispatch of 2008/09 unmeasured bills is that application numbers will continue at a high level.

To increase meter penetration from 2010, we intend to introduce metering on change of occupier for customers with large gardens (and thus high discretionary use), and to install meters alongside our maintenance programme, giving the customers affected the opportunity to opt for metered charges.

The costs of metering vary according to the method adopted. Meter optants, and change of occupier metering, produces a "scatter-gun" effect, whereby the physical location of customers is spread apart, increasing journey times for the meter installation, and also for meter readers.

The unit cost is reduced when all meters in a street or area are fitted as part of a maintenance programme, particularly when done in conjunction with other work such as lead pipe replacement.

A key issue for metering is the position of the meter. Internal installation is lower cost but leads to much higher meter reading costs. On balance, we believe external metering is more cost effective. An additional advantage of external meters is that they allow earlier identification of leaks on the customer's supply pipe. Bristol Water does not internally meter properties where possible, but around 8-10% of meter

installations are internal, where it is not practical to fit an external meter or for other operational reasons.

In some properties, particularly large blocks of flats, it is not possible to meter individual customers, and either a master meter must be used, or an assessed charge. We anticipate that once universal metering has been effectively achieved, approximately 5% - 10% of customers will be charged in this manner.

We consider that there is a natural timescale for installing meters efficiently. As the benefits of high levels of metering noted above are felt, it may be that the timescale for universal metering becomes shorter than that currently anticipated.

### **Metered Standing Charges**

We believe that metered standing charges should fully reflect the fixed costs of providing and billing the customer for their supply of water. We agree that this would send the right signals to a competitive market, allowing potential competitors to see where they could carry out those functions for a lower cost.

### **Innovative Tariffs and Tariff Trials**

To date Bristol Water has not carried out any tariff trials. We are monitoring with interest those being undertaken by other companies. We are considering the possibility of trialling one or more new tariffs in 2009/10.

We are unsure of the likely effects of such trials, and the extent to which tariffs will influence demand. There may be a tendency amongst customers to consider water to be a relatively cheap commodity and so their behaviour would not be altered by small movements in price.

We would expect Ofwat to encourage the development of innovative tariffs, and welcome company initiatives in this area. We would expect approval of the charges to be through the existing process of the Principal Statement and Charges Scheme. Tariff regulation should ensure that any group of customers is not being unduly discriminated against through the introduction of new tariffs.

### **Non-Potable Charges**

Non-potable mains are used by companies to transfer large quantities of untreated water from sources to treatment works. In some very specific circumstances there is an industrial customer situated in close proximity to that main, who requires a large volume of water which does not need to be of the normal quality standards. In those circumstances it can be economically beneficial to provide that customer with a non-potable connection to the main. The water is supplied at a discount, which reflects the lack of treatment process.

At present there are two customers in our area who are on specific non-potable special

agreements. We do not consider it to be economically sound to expand the raw water network to provide supplies to other industrial customers, as whilst the water they receive would be at a discount, they would have to pay the high costs of their connection the raw water sources. Therefore we do not consider non-potable tariffs to be a significant developing area for charging.

Yours Sincerely

James Holman  
Regulation Analyst