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Dear Mandy

OFWAT'S FUTURE STRATEGY FOR CUSTOMER CHARGES FOR WATER AND SEWERAGE SERVICES: A CONSULTATION

United Utilities welcomes this consultation and looks forward to developing charging strategies that will address the many issues that face the industry both now and in the future.

It is our view that the immediate issues that need consideration are:

- Affordability and the impact of increasing charges on those families whom are less able to pay
- Ensuring that the right charging structure is in place to ensure that customers receive the right pricing signals as we progress to near universal metering.
- The impact any changes in charging strategy may have on competition both in the short and long term.

The UU response to the questions raised in your consultation paper is attached as an appendix to this letter. If you would like to discuss any of these further please contact Lynne Gibson (e-mail lynne.gibson@uuplc.co.uk).

Yours sincerely

Graeme Sims
Director of Regulation

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OFWAT'S FUTURE STRATEGY FOR CUSTOMER CHARGES FOR WATER AND SEWERAGE SERVICES: A CONSULTATION – UU'S RESPONSE

Unmetered charges

Would you support 'no change' to the current RV unmetered charging system:

- **under the current metering rates?**
- **under a programme that delivered higher levels of metering earlier?**

UU would support 'no change' to the current RV unmetered charging system on the basis that as we currently anticipate near universal metering by 2035, time and resources would be better spent investigating more sophisticated metered tariff structures.

What factors could make RV charging unsustainable and what other alternatives do you think should be considered?

It is possible that as a higher level of metering is achieved that the charges payable by those customers who remain charged via the RV unmetered charging system could potentially increase substantially. This could result in an increasing number of customers unable to pay their charges unless the scope of the current "Watersure" scheme is widened or a similar scheme is developed and made available to this new group of "low income" customers.

We do not consider that there will be any real benefits in exploring other alternatives and consider that it is more productive to concentrate on the increasing penetration of meters and the development of alternative volume based tariffs.

Do you agree with our approach to RV modifiers? If not, please explain the basis of your preferred approach.

UU support the approach proposed by Ofwat. We believe that any changes to the RV modifier to encourage the take up of metering would require alternative tariffs or mechanisms in place, to protect vulnerable or "low income" customers who could be affected.

Paying for metering

What are the issues and evidence that Ofwat should consider to gain a better understanding of the costs and benefits of accelerated uptake in metering?

We believe that the issues that Ofwat should consider include:

- a company's supply demand position;
- the extent that the increase in metering has impacted on customers' bills to date;
- changes in technology;
- unit cost comparison of Free Meter Option, metering on change of occupier and compulsory metering.

What are the factors which you consider should determine when universal metering becomes appropriate?

We believe the factors requiring consideration to determine when universal metering becomes appropriate are:

- a company's supply demand position;
- the current protection that is available for vulnerable customers and how this may need to change;
- carbon impacts;
- customer education and awareness to enable them to influence their bills.

Metered standing charges

How should metered standing charges ideally be constructed to accurately reflect the customer and volume driven costs while also enabling competition?

Standing charges are currently set to recover, on average, the costs of having a meter. Some customers are opposed to meter standing charges, it may therefore be appropriate to consider offering the customer choice, by providing them with the option of being charged on a different volumetric rate which aims to recover both the costs of supplying the water as well as the customer related costs associated with a metered service. Such tariffs are now commonplace in the energy supply industry.

Tariff Trials – gaining the evidence

To what extent have issues been explored by companies up to now and what evidence is there that could be taken into account when assessing options?

Up to now UU have not carried out any specific tariff trials however we believe that the following should be considered when assessing the options:

- the proposal should be well defined with clear objectives;
- the outputs should provide relevant information;
- is there any impact for other customers or groups of customers;
- timescales e.g. when and how long it will take
- communication plans with customers;
- impact on customers bills;
- impact on the business
- accessibility of information to customers;
- the demographics of the company.

What are the issues involved in setting up and running successful tariff trials as a way to obtain sound and timely information in support of new household tariffs?

We believe that the main issues that a company may face include:

- customer communication;
- impact on revenue;
- impact on customers bills;
- whether the trial is voluntary or compulsory;
- the availability and the cost of suitable technology
- customer reaction and co-operation
- target group(s).

Are there incentives that could be offered to companies to share the results of robust early tariff trials?

It is our view that incentives could be offered to companies to share results such as:

- the impact of the tariffs on revenue to be taken account of if the Revenue adjusted price cap is introduced;

- provision of an allowance for additional opex and capex at the price review for any forecast trials taking place;
- complaints or contacts (written and telephone) could be excluded from the DG measures for the period of the trial.

Innovative tariffs

What are the issues each company must take into account when assessing whether to impose a tariff or offer it as an option? Where should the balance lie in offering innovative tariffs and protecting customers who are not on these tariffs?

We believe the main issue for companies of following the introduction of optional tariffs will be business risk however this could be taken account of if the Revenue adjusted price cap is introduced.

What other types of optional tariffs could be developed, beyond those considered in this consultation, and what might their impact be?

We consider that other optional tariffs that could be developed should include:

- an interruptible tariff for large users;
- time of day for large customers with storage facilities;
- seasonal for both household and non-household although they may have different structures;
- option for no standing charge;
- green tariffs.

How far do we need to regulate the level of charges set under optional tariffs so long as other customers continue to be protected?

Optional tariffs should not be regulated to the same extent, the introduction of each optional tariff should be considered to be business risk. Companies still have the responsibility to ensure that there is no anti-competitive intent in the way that the tariffs are set and that individual tariffs are not unduly preferential or unduly discriminatory to defined customer groups..

Non-potable

How should non-potable charges fit with the principles of geographically averaged charging whilst taking into consideration the potential differential use of specific water supply functions?

The costs incurred (opex and maintenance) in operating non-potable networks in different areas can differ depending on the type of water and/or the abstraction of the water. The supplies from such networks are generally restricted to a small supply area, not transferable through-out the region. It would therefore be possible to consider these different networks as different products and different pricing structures could be made available for each separate non-potable network.