

9th April 2008

**By Email**

Ms M. Jones,  
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Please ask for    Mr Cogley  
Our Ref            JEC/CH/Ofwat  
Your Ref

Dear Ms Jones,

**OFWAT'S FUTURE STRATEGY FOR CUSTOMER CHARGES FOR WATER AND SEWERAGE SERVICES**

Thank you for the opportunity to contribute to the future strategy for customer charges for water. We would support and endorse the response made by Water UK from an industry-wide perspective. We would further reinforce the comments made on charges being cost-reflective and the difficulties this creates when the majority of costs within the water industry are fixed and embedded and do not sit easily with a variable charge based on volume; for example, a low use holiday home could have a bill for water which is less than the cost of reading and billing and yet use all its water at peak demand time. These and other low user properties would, in fact, be making no contribution to the provision of the network or its maintenance.

I would respond to the individual policy areas as follows:

**Unmetered Charges:** We would support the retention of RV based charges for unmeasured as the costs of moving to an alternative would be high and as a surrogate for property size, hence occupancy and consumption, the RV charge is reasonable in most cases. Customers where this is not reflective of consumption would still retain the right to switch to a meter. However difficulties will arise when high occupancy low RV properties are compulsorily switched to measured as meter penetration is increased.

**Metering:** Although meters are the fairest way to charge for water, it should be remembered that overall costs will increase for customers, firstly in paying for the increased cost of reading and maintaining meters, and secondly, in the pricing signals which may be given in the future to control demand. Over the next 20 years there will also be transition effects which will affect different classes of customer as increased metering is rolled out. Initially, as larger RV customers either opt for a meter or are switched to meters, their savings in bills will be met by lower RV customers who are least like to be able to bear the increased costs.

**Metered Standing Charge:** This will produce one of the largest conundrums for the industry. The majority of costs in water supply are fixed and the variable cost of water is relatively small. Distortion of the pricing mechanism to charge more on a volume driven basis to save water will create a new set of cross subsidies which will inevitably affect those customers who are less able to bear the cost.

**Tariff Trials:** The experience gained from current trials should be more readily available throughout the industry, together with clear regulatory guidance on the issues of discriminatory charging across different classes of customer. Should rising block tariffs be applied to domestic only, or all users? Are the pricing signals for domestic customers the same for industrial or commercial users?

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**Innovative Tariffs:** Whilst innovation in tariffs might be desirable to signal different levels of usage for water, they should remain relatively simple. Monitoring water usage will, in practice, only be done on a six-monthly basis, unless smart meters are installed which can give regular feedback to the customer, otherwise most of the water saving will be confined to low water use products.

Yours sincerely,

J.E. COGLEY  
Customer Services Director