

# KNOWLEDGE IS POWER

Response Document

Future Strategy for Customer Charges for Water & Sewerage Services

16<sup>th</sup> April 2008

# ENERGY SOLUTIONS

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Mandy Jones  
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16<sup>th</sup> April 2008

Dear Mandy,

**Re. Ofwat's consultation document on future strategy for customer charges for water and sewerage services**

Thank you for inviting a response to the above document. The comments that follow are the collective thoughts of myself, as Water Consultant to Broadfern, and of Paul Anderson, who is the Lead on Emerging Markets at the Energy Information Centre (EIC). Broadfern and EIC are sister organisations that collectively represent the utility interests of some 1,200 industrial and commercial clients. As such, when Ofwat makes any reference to those organisations and individuals that have responded to the paper, we request that both Broadfern and EIC be accorded equal status?

Our opening comments relate to our long held belief that there is far too much obfuscation in the methodology of water pricing and explanations for their scales. Why should adjoining companies charge wholly different amounts for what is arguably the same product or service? There has to be greater consistency in pricing. Consumers should know exactly what they are being charged for and what additional benefits are gained when price levels increase. If the nature of the supply is sufficiently different to justify an increased price it should be clearly highlighted and auditable. We fully endorse the need for simplicity and transparency and would couple this with a need for greater cost reflectivity.

We very much welcome Ofwat's view that customer charges need to recognise a number of evolving strategic themes and, as joint representatives of business users, put the facilitation of effective competition at the very top of this list. Of additional importance, we include a rapid movement to increased metering and coupled with a new approach to social tariffs and we were pleased to note that this was one of the main conclusions of the recent All Party Parliamentary Water Group (APPWG) report "*The Future of the UK Water Sector*". It was encouraging to hear at the launch of the report that it is the Government's intention to take action to reduce the debt caused by those customers who won't pay and we were concerned to note that this now adds an average of £11 to customers' bills each year. Finally, in these opening comments, we support Ofwat's recognition of the need for the greater use of innovative tariffs and of their encouragement of technological innovation.

The following comments are our combined responses to the specific issues highlighted within the report.

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## **Page No. 12 – Unmetered charges**

It is our view that unmetered charges should relate to occupancy. We remain unconvinced that the use of the property RV continues to be the best method for calculating non-metered water charges. The alternative could be by reference to the appropriate Council Tax band or by something similar, as has been suggested by Thames Water's recent trial that related charges to house type/size and appeared to provide a more reflective comparison of users.

Greater accounting separation and transparency should highlight those charges that might have been "rolled up" into a modifier. Once identified, they can be excluded from any attachment to the RV based charging process.

## **Page No. 16 – Paying for metering**

Having made the two observations above, we would urge a rapid movement to universal metering when any such modification with non-metered charges would be obviated. There is no incentive to reduce wastage when charges do not relate to metered volume use. This, coupled with the current policy of non-disconnection for non-payers discriminates against all customers who do pay because, as a direct result, they are required to pay at a higher unit rate to cover the losses.

On the points raised in this section, we would have liked to have been provided more information. The report notes that household bills could rise by about 2.2 per cent beyond PR04 projections if virtually universal metering were to be in place by 2030. What are the parameters of this additional percentage? How have the percentages in Table 2 of the consultation been calculated?

It is our view that the benefits accruing from universal metering would far outshine the costs of achieving it, and the fear of such costs should not be used as an excuse for not even considering it. The perceived negative social impacts of full metering should be weighed against the supply/demand balance impacts and the environmental benefits. The use of meters has been shown to reduce water consumption and, ipso facto, wastage and water company energy usage will also be less. The ultimate benefits are those of lower costs and of a general mitigation of the impacts of climate change.

## **Page No. 17 – Meter standing charges**

We welcome Ofwat's proposal to reconsider the structure of metered standing charges; it is long overdue. It is our view that costs should be reflective so that there are true incentives to cut demand. When charges are weighed too heavily on the standing charge element there is no incentive to reduce demand. However, we do recognise a need to cover some infrastructure requirements. One suggestion would be short run volume charges.

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## **Page No. 20 – Tariff trials – gaining the evidence**

In our opening comments we have noted our interest in the greater use of innovative tariffs. There would also be the need for consistency in charges so far, such as customer blocks and when discounts can be applied.

As consumer representatives we are not in a position to comment on tariff trials but would agree that data should be shared when being of benefit to all consumers. It should not be difficult to make it a condition of licence that the methodology of successful trials be applied to all areas unless it can be proved not to be valid in a particular area.

## **Page No. 21 – Innovative tariffs**

Whilst welcoming innovation in the implementation of tariffs these must not be used to favour any particular group/user against any other group/user. They could have a major part to play in the development of a competitive market but, equally, there could be a risk of some of them being seen as anti-competitive if they appear to provide attractive pricing opportunities to a number of consumers but not to all.

## **Page No. 23 – Para. 3.9 Sewerage charges: surface water drainage**

We support the use of site area drainage charges and are pleased to note that the six companies that do not currently charge by this method will be required to do so by Ofwat.

Having supported charging by site area there are three specific matters that concern us:

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- The site areas used in the first instance as the charging basis are often not reliable and it is the customer that is required to identify any errors and seek redress. One of the problems is the potential for under-estimates for those parcels of land that are self-draining and that need to be subtracted from the total site area to determine the charging area. Greater initial effort and less assumption by the water companies would be of considerable help in “getting it right the first time”.
- We are surprised at the wide variation in charges between water companies for what is, in essence, the same service. As an example, for the current financial year Severn Trent based their charges on 22 Band Areas and on a price range of £8 for Band Area 1 to £99,678 for Band Area 22. Over the same period United Utilities has opted for 15 Bands with prices ranging from £49 to £81,447.
- It has been our understanding that if a site is larger than the size at which the highest Band starts to apply then the site is charged at the rate of the highest Band and, as such, that charge applies as the only charge. We believe that at least one water company may be considering making more than one charge against a large site, one at the maximum Band size and others at a number of smaller Band sizes. There needs to be Ofwat clarification on this matter.

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## **Sewage charges and non-return allowances**

There is no reference in the consultation document to sewage charges (as opposed to sewerage charges) and to non-return allowances and we believe that these should have been addressed under the Para. 3.9 Sewerage charges heading.

This is a topic that gives us serious concerns that, to a major extent, are compounded by the perception that Ofwat has never understood the depth of feeling in industry and commerce about the arbitrary and sometimes intransigent manner in which these are developed and applied by water companies. We believe that Ofwat should reflect consumer concerns by issuing a set of common working parameters applicable to all service providers.

For some eighteen years since the water industry was privatised many of us have been involved in numerous debates with Ofwat seeking clarification and support in resolving the issue of sewage charges. The particular issue here is that as such charges are not based on a metered volume but on the assumption (within a few percentage points) that "what goes in must come out" water companies should show consideration and flexibility when it can be shown, by overwhelming evidence, that they have overcharged for this service. Examples of this are when, after a bill has been paid by a customer, it can be shown that the returned volume is less than that charged for because water has been lost to ground through leakage, or consumed in product or lost by evaporation.

Surely it is only fair and equitable that, when it can be shown that a water company has benefited by overcharging for a service that it has not provided (by charging for a greater volume than it has received) such monies should be repaid to the claimant. This is not an exact science by the very nature of the methodology of the charging and all that industry wants is for any rebate claim to be treated fairly and equally across the country. This is not the case, as each company appears to have its unique small print on this; some do repay but the period for such re-payments vary, while some refuse to pay anything. Among those companies that do agree to some repayment, it often takes years to reach an agreement on the scale, and the period of recovery is often much less than the actual period of over payment. What industry finds particularly galling is that when a water company finds that it has undercharged a customer it immediately makes a claim for back payment and, if appropriate, for the full period of six years as allowed by the Statute of Limitation.

Whilst it is our view that Ofwat should have provided a firm lead on this issue, we feel that this has not been the case. There have been a number of conflicting messages over the years, and at all levels of management within Ofwat and this has led to mixed and confusing signals from them. We have now arrived at the untenable position of one branch of the legal establishment saying one thing and another completely contradicting it. For example, a situation has developed where one legal representative has stated that it is perfectly fair for a water company to charge for a service that it is not providing because, although the charge is volume based, it is actually for the right to discharge to sewer and it is of no consequence if less than the charged for volume is returned, or even if nothing is returned. The contrary view as espoused by another legal body is that a water company can only charge for the service that it provided and, if it can be proved that it has charged for a volume that it has not received, then that charge is in error and should be repaid.

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It is our view that what is required is an Ofwat statement of clarity that brings to an end all the confusion that this charge causes and the perception that it is operated very much in the interests of the water companies and against those of their customers. Such a statement should include: -

- That when a water company charges a sewage return based on a volume equal to 100 per cent of the supplied volume but then lets it be known that the price per cubic metre is less than it could have been because (in determining the cost) they have made some allowance for a small percentage of non-returning volume, they should clearly state what that small percentage is and how it has been calculated.
- That when a water company charges a sewage return based on a volume that it is less than 100 per cent of the supplied volume, they should clearly state the makeup of the assumed non-returning volume.
- A clear and unequivocal statement on leakage allowances and including: -
  - If and when this can be applied for;
  - What retrospective period it can be claimed over; and
  - What evidence of proof is required to authenticate a claim.
- A clear and unequivocal statement on other elements of non-return and including such things as water consumed in product, water lost by evaporation and water tankered away by contractors. Such a statement should include: -
  - When a reduced return volume is applied for, say at the commencement of a new process, what evidence of proof will be required?
  - When a full return volume has been charged for by the water company, and paid for by the customer, on the understanding that there was no element of non-return but, if it then is subsequently found that less than the full volume has actually been returning: -
    - If and when a claim for the rebatement of monies from the water company can be made.
    - What retrospective period it can be claimed over.
    - What evidence of proof is required to authenticate a claim.

## **Trade effluent charges**

As with sewage, there is also no specific reference made in the Ofwat document to trade effluent charges, although the reason for the document relates to the future strategy for charges. It is our view that there should be a specific reference to this charge and that it should include: -

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- Ofwat's thoughts on the continued use of the Mogden formula as the mechanism for calculating costs. It is our view that this is the correct method.
- A clear definition of trade effluent. We raise this because (as an example) we are aware there has been some discussion as to whether a laundry discharge should be charged as sewage or as a trade effluent. It is, essentially, a weak discharge and would, in most circumstances, attract a lower charge as a trade effluent than as a sewage discharge.
- Guidance on the apportionment, within the Mogden calculation, of those charges that relate to the volume element and those that relate to the strength element. It is a concern of ours that water companies often load the calculation with respect to volume such that when a customer makes a significant reduction in the strength of the discharge (by a reduction in the COD and/or solids content) there is only minimum reduction in the cost because it is primarily volume based.

## **Page No. 24 – Para. 3.11 Non-potable charging**

The Ofwat charges report 2007-08 lists six companies that are suppliers of non-potable water and it would be good to see all companies offering such a service, particularly when it is believed that much less than 10 per cent of potable water use needs to be of such quality. However we fully appreciate that the costs of extending the current service could be prohibitive. Where the service does exist, any such charges should be cost reflective and proportionate when compared to potable water.

We are pleased to have been given the opportunity, as consumer representatives, to contribute to this important Ofwat strategy document. Those that we represent do have serious and valid concerns over some of the pricing mechanisms currently in use and, in particular those that relate to sewage, trade effluent and surface drainage charges. We have expressed those concerns in some detail above and will be happy to elaborate on any or all of them should that be required.

Yours sincerely,

*Gordon*

Gordon Reddish  
Water Consultant

In association with: -

Paul Anderson, Lead on Emerging Markets at the Energy Information Centre.