

Bournemouth & West Hampshire Water

Response to consultation

Ofwat's future strategy for customer charges for water and sewerage

We welcome the opportunity to respond to the consultation.

However we feel that there is scope for misinterpretation of the paper due to it encompassing the differing needs of affordability, demand management and competition. Whilst we agree that they all require significant thought to deliver the optimum resolution for each class of customer or stakeholder, we feel that they are too wide-ranging and complex to be addressed in a single consultation and that a stepped approach to a coherent tariff strategy is desirable.

We have clarified our responses to whether we are referring to households and non-households; and to non-household customers above or below the competitive threshold.

General comment of the updated charging principles and supporting strategies

We agree with the evolving strategic themes and welcome articulation of the key charging issues the industry must address. We believe that this will focus minds and aid future discussion.

However we query the weighting behind the principles, the interpretation of their meanings and the tensions between them. For example, increasing cost-reflectivity will reduce the opportunity for sending demand-management price signals via tariffs; whilst increasing cross-subsidies to support affordability cannot be viewed as fair or equitable to those customers bearing the additional burden.

We believe that some flexibility towards interpretations will be required to deliver the optimum tariff strategy.

- *2.1 Charges should be fair and equitable*

We agree with the principle of broad cost-reflectivity, in particular in respect of non-household charges outside the tariff basket.

However we are cautious in respect of household charges. Whilst we agree that all customers should be treated equally we are concerned that cost-reflectivity does not become the highest-weighted principle for tariff strategies.

We believe that whilst tariffs should be fair and equitable, and similar customer classes should be charged the same tariff, there should also be scope for moving away from cost-reflectivity to deliver specific needs, for example relief from incidence effects or demand management messages.

If cost-reflectivity is strictly adhered-to we believe that opportunities for innovative and effective tariff strategies that deliver the optimum resolution for all customers and stakeholders will be curtailed.

- *2.2 Charges should be as affordable as possible for all customers*

We support this principle for household customers from social and debt recovery perspectives.

We believe that there would be merit in extending vulnerable status to elderly customers, particularly those in single occupation, and that customers would probably support it despite customers' feeling that some social tariffs (particularly those relating to family size) should not be subsidised by the generality of customers.

Extending the current WaterSure tariff structure without careful consideration of these customer beliefs could attract criticism that it would be in contravention of the principle of fairness and equity.

In addition, and in contravention of this principle of affordability, extending the structure would also further disadvantage struggling customers who would not qualify for the tariff.

We would prefer that the qualifying criteria continue to be prescribed by Government.

We do not believe this principle is relevant for non-household customers, in particular those outside the tariff basket.

- *2.3 Incentives to consumers and companies should be improved*

We agree with and welcome the suggestion of flexibility but are unclear whether the principle relates to both household and non-household customers.

Under the current and developing customer service regimes we are unsure how companies can realistically offer household customers varying service levels without compromising their own standing in comparative competition. Likewise we are concerned that offering choices of tariffs may clash with the need to drive changes in behaviour. For example offering a choice of metered household tariffs will encourage high users to remain on the tariff that offers them the cheapest option to continue their 'normal' behaviour.

For non-household customers above the competitive threshold we agree that companies should have the flexibility to offer a suite of tariffs and services tailored to their needs. As customers would be able to choose the service they receive the agreed levels of service should not be subject to any form of OPA-type scoring as currently structured.

- *2.4 Companies should be clear about how customers' overall bills are made up and what customers can do to influence them*

We agree with this principle.

Unmetered charges

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

i) under the current metering rates (shown in section 3.2)?

- Yes.

ii) under a programme that delivered higher levels of metering earlier?

- Yes, although we believe that where it is difficult or costly to meter then assessed metered charges will continue to be an important element of the charges structure.

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

- It may be that undue discrimination against the remaining unmetered customers could be claimed as their bills gradually increase. However we do not think that the current system should be amended because tariff rebalancing is taking effect.
- Retaining tariff rebalancing is likely to encourage more customers to opt for a meter, although we are concerned that the current perverse situation driven by the tariff differential which has caused metered charges to rise more quickly than unmetered ones could reduce potential optant numbers.
- Some vulnerable unmetered customers may still be better protected by opting for a meter and applying for WaterSure. If the tariff is offered on assessed accounts all vulnerable customers including the elderly would be protected even where a meter cannot be installed.
- Strategies should to be aimed at encouraging non-vulnerable unmetered customers to opt, whilst in the meantime protecting unmetered vulnerable customers that cannot or will not opt. Until full metering is achieved this could take the form of fixed licence charges that are not affected by tariff rebalancing. Eligibility criteria would need to be carefully developed and managed.
- Following-on from the previous bullet, a critical metering level, possibly company-specific, could be set; after which the current tariff rebalancing mechanism may need to be reconsidered to halt any further incidence effects.

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

- Yes, RV modifiers should not be used to increase the burden for vulnerable or low-income customers.
- In fact existing modifiers could be reversed to decrease bills for low-RV properties, thereby giving greater protection for potentially vulnerable customers. This could offer the dual benefits of encouraging metering whilst offering further low-RV customer protection, but is likely to only be transitional if the effect of tariff rebalancing ultimately increases unmetered bills as customers with higher RVs subsequently switch. We would therefore question the long-term benefit of removing existing RV modifiers unless the move was used as part of a wider strategy.

Paying for metering

What are the other issues and evidence that we should consider to gain an understanding of the costs and benefits of accelerating the uptake of metering?

In addition to those detailed in the consultation we foresee others such as:

Costs

- Cost of the meters and creating the meter space.
- Increased customer service costs.
- Increased supply pipe repair/replacement costs.
- PR and education to gain customers' buy-in.
- Social and carbon cost of manufacture and installation.

Benefits

- Reduced demand-side leakage.
- Benefits of tariff-driven demand management options.
- May enable a more efficient structured approach to meter installation instead of the current scatter-gun approach. This benefit could be leveraged to create greater efficiencies and benefits if the integrated approach was extended to include routine maintenance at the boundary such as communication pipe and supply pipe replacement.

Other issues

- Meter manufacturers' ability to meet increased product demand.

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

We feel that this is dependent on how the issue of unmetered charging is approached. As we have stated above, companies may reach a critical level of metering when it would be pragmatic to meter or assess all customers.

Metered standing charges

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

- We are unsure that these two needs can be delivered through the structure of standing charges.

Tariff trials – gaining the evidence

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

- We cannot currently offer any evidence regarding household tariffs.
- Our experience of operating a seasonal tariff for our non-household large users is that price is mostly inelastic and that if an uninterrupted service is provided then

customers are likely to pay for whatever is used. We believe that this is linked to the relatively cheap cost of water and this is borne out by experience that some customers will continue to pay even when they know leaks exist, because water is a small element of their overall costs.

- There is evidence of water efficiency activity in some hotels, where cistern displacement devices are being fitted and reminder stickers placed on basins.

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?

- Development time including piloting.
- Billing system changes.
- Possible technology and operational costs.
- Marketing and customer information/public relations.
- Increased customer service costs.
- Possible bad debts as a result of resentment and perceptions of unfairness.
- Affordability.

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

- We are happy to share any findings from household trials with others.
- For non-household trials we would require reassurance that any information would not be used anti-competitively or for gain; accompanied by a process to penalise organisations that attempt to do so.

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 those tariffs?

Non-households

- For those outside the tariff basket it is likely that companies' dual needs of encouraging demand management and retaining customers will clash. For example, imposing tariffs designed to encourage demand management could prompt a customer to seek cheaper alternatives that are not demand-driven. This is particularly relevant where seasonal tariffs are imposed on a seasonally driven business, for example tourism.
- If the competitive threshold drops to zero it would be most appropriate to offer a range of tariffs for companies to choose their favoured option. If the tariffs are correctly and thoughtfully developed then a demand-management element could be incorporated whilst reducing the risk of tariff-driven attrition.

Households

- It seems most appropriate for the same tariff to be levied on all, whilst a carefully structured safety net protects the most vulnerable customers.
- In the short-medium term rising block tariffs seem the fairest the most realistic to implement and will protect low users such as the single-occupant elderly customers

perhaps without the need to extend WaterSure. However high occupancy, low-income households could be significantly disadvantaged.

- In the longer-term seasonal tariffs which use winter use as a benchmark for calculating additional discretionary use could provide a customer-specific option which self-regulates, thereby reducing the need for complex protection structures. A key success criterion however would be fully automatic meter reading.
- We believe that assessed charges should continue as they currently are, offered by companies only after being served with a measured charges notice but where metering is impractical.
- WaterSure should continue to be the primary safety net for very vulnerable customers.

What other types of optional tariffs could be developed, beyond those considered in this consultation, and what might their impact be (for example, interruptible tariffs for large users)? How do they meet the objectives we have set out for the development of future tariffs and charges?

We do not comment on this question as we believe that any alternative tariffs that we develop will be in response to specific customer needs, rather than being a generic offering.

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

- As long as the tariff is applied to customers falling outside the tariff basket the risk becomes a normal commercial risk and therefore should not be regulated.
- Within the tariff basket we are keen to ensure that our customers are protected by the regulatory regime. We are also keen that as changes are implemented the regime supports companies in carrying out their required actions. We would therefore welcome further discussion on the format this should take as the new tariff policies are developed.

Non-potable charges

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 (ie possibly more limited use of service reservoirs, pumping, distribution, etc)?

- This question is not applicable to us.