



## Public Utilities Access Forum

**Founded in 1989, the Public Utilities Access Forum (PUAF) is an informal association of organisations, which helps to develop policy on the regulation of the public utilities providing electricity, gas, communications and water services in England and Wales. PUAF facilitates the exchange of information and opinions between bodies concerned with the provision of those utilities to consumers with low incomes or special service needs, such as the elderly and people with mental and physical disabilities. It draws the particular problems of such consumers to the attention of the industries, the regulators and other relevant bodies, promoting the adoption of policies and practices that cater for their needs, exchanging information about service provision and promoting research.**

### **Ofwat's future strategy for customer charges for water and sewerage services: PUAF response to consultation**

#### **Introduction**

PUAF members have a strong interest in issues relating to the affordability of water and sewerage services for low income consumers, including the implications of tariff structures and the provision of information for consumers about consumption of these essential services.

Key points for PUAF members arising from these proposals include:

1. The references to the need for affordability of water charges are welcome. Ofwat should define what is meant by affordability, particularly whether it adheres to the measurement of water poverty defined by households spending more than 3% of their income on water and sewerage charges.
2. Undue emphasis is placed in the consultation document on enabling competition and the problem is compounded by the absence of any detailed examination of the implications for domestic consumers. Instead, protection of consumers' interests should be the prime aim and focus of these proposals.
3. Ofwat is in danger of under-estimating the numbers of consumers who may be in vulnerable circumstances. Ofwat should examine and consult on what is meant by the term 'vulnerable customers', and provide guidance to the companies.

4. Ofwat's interim impact assessment provides an inadequate basis for these proposals. In particular, it fails to examine the potential effects for low income consumers, including those who may have high levels of essential need for water use.
5. The results and data of company tariff trials should be independently evaluated and made publicly available. The means by which trials will be evaluated should be developed in advance and in conjunction with consumer organisations.
6. Ofwat should produce an up-to-date and comprehensive assessment of the evidence base regarding the costs and benefits of metering for groups of domestic consumers, and of the effects on consumption for different uses of water services. This should include the effects of metering for consumers with high levels of essential need for water as a result of personal circumstances such as disability, medical condition, and household size. Ofwat should also assess the impact on charges for consumers who remain unmetered.

## **Charging principles (section 2)**

### Charges should be fair and equitable

Ofwat needs to provide greater clarity on how this principle, and the underlying emphasis on the need for cost-reflectivity, meshes with the accompanying principle regarding affordability.

The consultation document states that: "*Customers who use similar services in similar circumstances should pay similar charges. Charges should be broadly cost-reflective.*" However, where consumers' circumstances differ significantly, this may not be fair, particularly when the burden of charges is heavier for low income households.

The consultation document also assumes that increased metering equates with this principle. However, many people on low incomes also have high essential need for water due to household size or medical condition. Metering households in this type of situation could place their health and well-being at risk, and it is difficult to see how this would fulfill the principles of fairness and equity.

### Charges should be as affordable as possible for all consumers

We welcome Ofwat's recognition of the need for greater affordability of charges for these essential services. However, Ofwat needs to clarify what is meant by "*as affordable as possible*", and how it defines water affordability, notably whether it has adopted the indicator of water poverty defined by households paying 3% or more of their income on water and sewerage charges.

Ofwat also needs to clarify how it views its responsibilities in relation to affordability of charges, given its duties to protect consumers' interests and to have regard to the interests

of groups of consumers including those on low incomes and consumers who are disabled or chronically sick.

Ofwat states that it will expect companies to take account of the needs of 'vulnerable customers'. However, this is a matter of broad public policy which should not be left up to individual private companies to decide – we explore this issue further in comments on section 3 of the consultation document.

#### Incentives to consumers and companies should be improved

This reads more as a statement of intent or policy rather than a principle. In considering Ofwat's expressed aims in this regard, we agree that the companies should deliver the right level of service at the right price. This begs the question as to what is the right price, which depends ultimately on whether the price controls are set correctly to ensure that the companies deliver high quality services and efficient investment programmes without earning excess profits at consumers' expense.

Ofwat wants to encourage the companies to use innovative tariffs and to deliver a range of choices of tariffs. However, the consultation document does not explore the fundamental issue of whether an expansion in the range of tariffs would automatically be in consumers' interests. The water and sewerage sector provide services that are essential for everyone's health and well-being. It is highly questionable that encouraging the companies to offer a range of tariffs would be in consumers' interests. Consumers' experiences in other sectors indicates otherwise, for instance regarding mobile phone tariffs.

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

We agree that consumers should have clear information about the factors that make up their bills. However, we are concerned about the emphasis on the promotion of competition in this context. Instead, the core aim should be to ensure that consumers receive accurate and comprehensible information about their bills.

#### **Ofwat's policies (section 3)**

##### Unmetered charges

Ofwat states that, as meter penetration increases, there will be an increasing need for companies to offer alternative tariffs as a safety-net for vulnerable customers. Whilst we welcome the recognition that vulnerable consumers need to be protected against the adverse effects of metering, Ofwat should define what is meant by a 'safety-net'. Does this mean the minimum amount of household water needs for health and hygiene purposes? How would the circumstances of consumers with high levels of essential need for water be taken into account? We also question whether sufficient protection can be

provided through the tariff structure. In addition, the issue of water affordability is one that also affects many consumers who are unmetered.

Although Ofwat states it will look critically on company proposals to increase 'RV modifiers' (which are described by Ofwat as standing charges applied on unmetered bills), it is also proposing to allow the practice to continue if companies make alternative tariffs or mechanisms available to protect vulnerable or low income customers. As the consultation document states, where the RV modifier increases over time, customers must use progressively more water to remain better off and unmetered bills could increase to the extent that customers on low incomes find their ability to pay compromised.

It is surprising that Ofwat is proposing to allow companies to increase RV modifiers in order to encourage the take up of metering, as this appears to constitute undue discrimination against unmetered consumers on low incomes. Consequently, Ofwat should take action to stop this practice rather than trying to mitigate the effects through tariffs or other mechanisms.

Ofwat needs to ensure that robust consumer protection is put in place before changes are made in this regard, and also clarify how this policy fits with the aim of cost-reflectivity.

## **Metering**

We do not consider that the proposed policies are in consumers' interests, especially those of many low income consumers. Ofwat is promoting the spread of metering without a sound evidential base on the implications for domestic consumers, especially those on low incomes and with high levels of essential need. This raises a critical question about whether Ofwat is fulfilling its duties regarding the interests of low income consumers and disabled people.

The consultation document discusses the indirect benefits of metering, notably in relation to associated impacts on climate change. Although the benefits of action to reduce carbon emissions and to conserve water should be considered, consumers on low incomes are the ones who are most likely to cut down on water consumption because of metered charges. Ofwat needs to consider further the potentially regressive nature of the promotion of universal metering, and actively explore how consumers can be helped to cut down on water consumption through water efficient devices and equipment, without risking their health and well-being or jeopardising their ability to pay,

It is disturbing that the consultation document places so much emphasis on enabling competition. It is even more disturbing that the consultation document appears to be encouraging cherry-picking by new entrants by stating that improved price signals can also reveal where entry would be most profitable and sustainable. On the contrary Ofwat should be seeking to guard against such practices, and should aim instead to ensure that domestic consumers do not suffer any adverse consequences from an expansion of competition in any part of the customer base.

The document asks what other evidence and issues should be considered to gain a better understanding of the costs and benefits of accelerating the uptake of metering. First, however, we need robust and independently-evaluated research evidence on the short and long-term consequences of metering for different groups of customers before any such acceleration. This should include evidence about consumption patterns, what uses consumers cut back upon, and any effects for affordability and health.

### **Metering standing charge**

Ofwat is proposing to consider again how metered standing charges should be structured. It would be helpful to have more information about the current structure of these charges. Before proceeding further, Ofwat should explain the rationale for the current system, and why any changes need to be made. In particular, the consultation document refers to volume-driven costs without explaining how these are related to standing charges.

### **Cost reflectivity and tariffs**

Neither the consultation document nor the accompanying interim impact assessment provide a sufficient evidence base for policies aimed at encouraging the development of metering and different types of tariffs. We question whether tariff structures alone can fulfill Ofwat's policy objectives, particularly the critical issue of how the interests of consumers in vulnerable circumstances can be properly protected if these households are metered.

### **Seasonal tariffs**

It would be useful for Ofwat to examine further what constitutes 'discretionary' use of water. For instance, some external use fits with public policy objectives, such as where households use water to grow their own vegetables in a sustainable way.

### **Rising block tariffs**

We are concerned that neither the consultation document nor the accompanying interim impact assessment explore the potential adverse effects of rising block tariffs for people who have high levels of essential use of water and sewerage services. Logically, for Ofwat to meet its stated objectives, the price differentials between different blocks will have to be significant to deter higher consumption. This will penalise consumers with high essential needs for water due to household size, disability or medical condition.

This critical issue should have been examined in the impact assessment and needs to be urgently explored. There are many people with medical conditions or disability whose health and well-being are likely to be at risk if they have to make substantial reductions in their use of water. In addition, rising block tariffs appear to be regressive as the effects of each step change will affect poorer households more than high income households, especially those with high essential needs.

## **Social tariffs**

We agree that it is the Government's role to protect low income and other consumers in vulnerable situations in terms of the affordability of water charges through the tax and benefits system.

It is extremely unlikely that social tariffs can play an effective role in improving the affordability of water charges to any substantial extent. Ofwat asserts that these tariffs can be developed without unduly increasing the burden on other customers through cross-subsidy and claims that this can be done where the number of customers helped may be small. It is clear that Ofwat is assuming that the application of such tariffs will, in practice, be very limited. It is worrying that there is no attempt to assess the extent of potential need or the number of consumers who may face problems with affordability of water charges.

If the companies are to be encouraged to trial social tariffs, the criteria for eligibility should be set by Ofwat following consultation as this is a matter of public policy. We are concerned that there does not appear to have been any evaluation of the effectiveness of social tariffs in improving water affordability, such as those offered under the Vulnerable Groups Regulations.

We are extremely concerned about the references in the consultation document to the ban on household disconnection and the possible use of pre-payment or trickle flow devices. Ofwat should clarify publicly that it has no intention of making recommendations to the Government that the ban on disconnections should be lifted or that the use of pre-payment meters or trickle flow devices should be permitted.

## **Customer choice**

Ofwat is assuming that an increased choice of tariffs would automatically be in consumers' interests. It is not apparent that this is the case. Consumers in general may not wish to be confronted with a set of possibly confusing and time-wasting choices regarding water and sewerage services. Many consumers also risk being placed at a considerable disadvantage if the range of tariffs is expanded, for instance people with basic skills difficulties or in stressful situations. We are surprised that these issues are not mentioned in the consultation document or examined in the interim impact assessment.

It is not clear whether Ofwat has looked at lessons from the energy sector. The experience in this market is that customers do not always choose the most beneficial tariffs when they switch. Ofwat also refers to 'green tariffs' as one of the possible optional tariffs. Again, in the energy sector, concerns have been raised about the justification for higher charges associated with these tariffs, and about the extent to which such tariffs are derived from 'green' energy sources.

Moreover, the consultation document does not explore how Ofwat would ensure that consumers will be given accurate, objective and easy-to-access information about different tariffs. If the water sector does develop a range of tariffs for domestic consumers, then Ofwat and/or CCWater should establish and require independent accreditation for internet sites that provide comparative information. However, we restate our concerns that the development of a `choice' of tariffs would not necessarily be in consumers' interests in the first place.

### **Impact assessment**

The interim impact assessment that accompanies this document is deficient in failing to assess the quantitative and/or qualitative implications of the proposals in any kind of detail. Instead, Ofwat needs to carry out and consult on a comprehensive and robust impact assessment before proceeding further. This should include a proper evaluation of the potential effects of the proposals for groups of domestic consumers, such as the implications for consumers with high essential needs for use of water and sewerage services because of disability, medical condition, size of household or other personal circumstances.

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