

Response to Consultation Ofwat's future strategy for customer charges for water and sewerage services

Tending Hundred Water

Introduction

Tending Hundred Water (THWS) welcomes the opportunity to respond to this consultation.

The background to our response is that we have a small customer base of around 70,000. We have the highest meter penetration in the industry where 70% of our customers are already metered. Our leakage is one of the lowest in the country and our customers have the lowest metered pcc at around 120 l/h/d. We expect meter penetration to rise to in excess of 90% by 2015. We intend to use customer charges as a tool to help us to maintain this low consumption, and support the four principles put forward by Ofwat of:

- Fairness & equity
- Affordability
- Incentives to consumers and companies
- Simplicity and transparency

We are particularly positive towards proposals that support universal metering and give flexibility to establish service reflective charges. We wish to ensure that future charges schemes are simple to understand and explain to customers.

We believe that it is the Government's role to protect vulnerable and low-income customers through the tax and benefits system. This is promoted in our SDS where we refer to a single tariff structure for all customers; i.e. essentially the avoidance of social tariffs.

Complex tariffs, including social tariffs, create administrative burden for all companies, and for small companies in particular where resources are tight.

In summary, this is a positive document covering a complex issue. It is focussed on domestic customers and more discussion on commercial tariffs would be welcome. We remain cautious regarding the implementation of a raft of new tariffs, believing that some will prove difficult to administer and many will be discriminatory by definition.

We would look forward to working more closely with Ofwat on this issue in future.

More specific comments are given below.

Unmetered Charges

Metering remains the fairest way to charge and with improved communication can allow customers to focus on consumption and for the company to work with high consumers to reduce demand.

We are concerned that RV charge bears no relation to occupancy or consumption. We are located in a water stressed area and do not believe that this is sustainable. We would prefer to see the unmetered charge linked to occupancy and garden size. However this would increase the administrative burden on the company.

THWS meter penetration is expected to rise to be in excess of 90% by 2015. In light of this we agree that any change to the current RV unmetered charging system would be uneconomical and for this reason alone support 'no change' under a programme that delivers higher levels of metering in charge.

Once meter penetration exceeds 85% we would be in strong support of a form of assessed charge, possibly based upon occupancy, to encourage transfer to meter.

Metering

Meter penetration at THWS is around 70% and customer pcc is low for the industry at around 120 l/h/d. The initial increase in meter penetration was achieved through compulsory metering of high users. We believe that metering provide us with the fairest and most transparent way of charging and now support and promote rapid progress to universal metering.

Tariff overview

Progress to date has been achieved with a single tariff and this may raise questions of the value of more complex tariff schemes at the initial stages of metering. It is critical that the current low customer consumption levels are maintained to protect our existing resources and we believe that THWS will have to consider more innovative, volume based tariffs in future, although the benefits from these are currently uncertain.

THWS will be seeking to promote consumer water efficiency and is already undertaking a number of initiatives which have been well received by our customers. Ofwat's introduction of a revenue correction mechanism will support this drive and in principle is welcomed, albeit recognising that there are many details still to be resolved.

We are concerned about the additional customer information some volume related tariffs may require us to collect, update and manage, for instance specific demographics. We are uncertain how all this information may be obtained from all customers and question whether it is reasonable for us to expect customers to give it to us. We would not want tariff selection to be governed by the quality and type of information individual customers are prepared to share with us.

We prefer simple tariffs recognising that complex tariffs are difficult for customers to understand, and difficult and expensive for companies to administer.

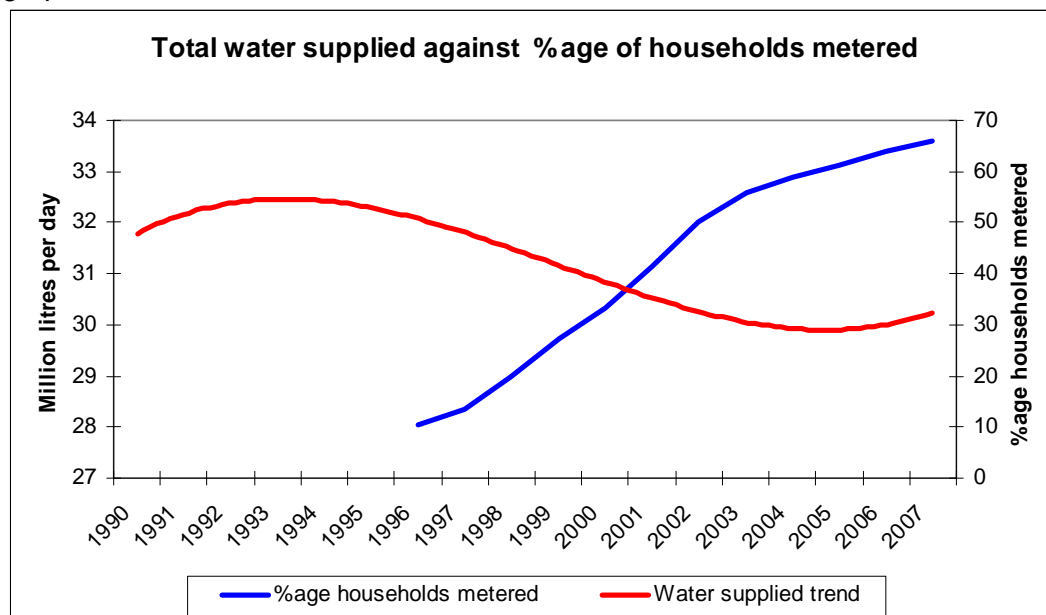
We agree with the point made that the cost of implementing a replacement to RV would be avoided if near-universal metering is achieved and should be recognised in any cost/benefit analysis for accelerated metering.

We agree that vulnerable customers need protection, however we have grave concerns for any proposal that links tariff to personal income. We concur with the specific conclusions in MD165 that there is little enthusiasm for further social tariffs as these are matters that should be decided by government rather than by companies.

Increasing meter penetration

We draw your attention to **Table 2 Household Metering Projections**. The table should show THWS projected metering to be 90% by 2015 rising to 95% by 2030. This is then in line with our SDS.

Metering has been extremely successful at THWS for reducing demand. This is illustrated in the graph below.



Metering is key to maintaining high service levels at THWS and we will continue to drive for universal metering. Nonetheless, despite the success to date the graph above illustrates that the total water supplied is beginning to rise, generally from growth in the region, and we need to continue to drive down demand in future.

Further, we question whether compulsory metering should come into force once meter penetration reaches a set level, e.g. 85%. This avoids potential discrimination, reverting to a single class of customer charge, but should also save costs on managing two charges schemes (measured and unmeasured). Assessed charges already exist and would be used for properties where fitting a meter proved uneconomic or impractical.

We are certain that a benefit of universal metering will be our ability to improve customer choice through an improved range of selective services linked to a menu of tariffs.

THWS would be interested in widening transparency in fixed and variable costs. We recognise that bad debt is rising and would like to see this included clearly within this calculation. With more data becoming available through the increased penetration of meters, this element might become more evident.

We wish to explore the application of the tariff differential formula as meter penetration approaches 100%. We propose that the volatility of the calculation is reviewed as the number of unmeasured customers reduces. We also believe that the cost of providing a meter should be offset against the cost of providing and managing the unmeasured tariff for a minority group of customers. This leads us to prefer an assessed charge for all non-metered customers once meter penetration exceeds say 85%.

Tariff types

Seasonal tariffs

THWS is generally supportive of seasonal tariffs, in fact we already use them for commercial customers. We reiterate the point that they have to be simple and transparent for customers. We do not want to introduce an unnecessary high administrative burden to facilitate a complex tariff structure.

Rising block tariffs

Overall we are hesitant about introducing rising block tariffs. We await results from a number of industry trials, however believe that the link to household information will create an unnecessary administrative burden.

Social tariffs

We have not supported the introduction of social tariffs at Tendring. This is stated within our SDS and as previously stated stems from our belief that it is the Government's role to protect vulnerable and low-income customers through the tax and benefits system. We also have concerns over the information we will have to collect and believe that the administration costs would probably be high, therefore increasing the economic burden on other customers.

We do recognise the impact that metering can have on some customers and prefer to develop systems with government to perhaps facilitate the automatic reclaim of bills on behalf of customers once agreed criteria are met. For instance this could be part of a national system where customers are pre-assessed by benefits system and given a code (much as a tax code) that we can use to reclaim revenue on their behalf. We expect to develop our approach in AMP5 along with processes that will be necessary to prevent fraud.

Social tariffs that affect debt imply cross-subsidy. We are naturally cautious on their introduction.

We discussed the options of social tariffs with customer focus groups during our SDS consultation period and obtained mixed feedback. We believe in general that our customers do not want to cross-subsidy others. However there is recognition that a small number of customers will be in genuine need of support and in these cases there would be less resistance to help them out.

Tariff trials

We note the proposal for companies to carry out tariff trials. We again have concerns over the issue of discrimination and how this can be avoided, particularly in a small company with only 70,000 customers. We favour getting meters in the ground and establishing a benchmark for water consumption behaviour over time. At this point different tariffs may be introduced, however we will not really understand the impact for a number of years. In essence new and innovative tariffs will take time to develop, trial and finally implement.

In light of this we would favour company-wide trials. THWS is currently prepared to share data from these trials with others. The company may tend to be more guarded with this information if competition at the domestic level were to become widespread.