



Consultation on Charge Scheme Rules for 2016-17 and future developments

An Ofwat Consultation

Consumer Council for Water Response

September 2015

1 Introduction

- 1.1 The Consumer Council for Water (CCWater) is the statutory consumer organisation representing water and sewerage consumers in England and Wales. CCWater has four regional committees in England and a committee for Wales.
- 1.2 We welcome the opportunity to comment on Ofwat's proposed charges scheme rules and on future developments.
- 1.3 Overall we are supportive of the guidance. We have however commented on a number of issues including the following key points:
 - We agree that companies should review their approaches to surface water drainage allowances where these currently operate in a binary manner;
 - It would be useful for the rules outlining key charging to be clear that there is no expectation for companies to undertake geographic de-averaging;
 - It will be important that companies' approaches to engagement on charging matters reflects CCWater statutory role in the process;
 - The rules should set out Ofwat's expectations in terms of the backdating of surface water drainage rebates;
 - Companies considering the implementation of site area based surface water charges must have a clear understanding of how this would impact on customers take this into account in the design of the scheme and the timescales for implementation;
 - The 5% bill change figure (inclusive of inflation) seems appropriate as a formal trigger point for impact assessments. However, companies should also give consideration to the incidence effects of bill changes below this level in cases where nominal impacts for some customers may be significant, or would fall on customers who might be vulnerable or where the increase is twice or more the rate of inflation (for any or all groups of customers).
 - We welcome the proposed consultation on consumer protection issues, such as Deemed Contracts, and the consideration of the extent of standardisation that is desirable across wholesale tariffs. The market must develop in a way that delivers benefits for customers and also offers an appropriate level of protection for those customers who do not participate, through either choice or lack of eligibility;
 - We support plans to pilot a further disaggregation of wholesale wastewater charges. Greater disaggregation would allow the entry to the market of niche retailers who can offer tailored services to customers;
 - Wholesalers should publish a complete list of charges, primary and non-primary. The Wholesaler will need to know this information for its own and transparency will benefit customers;
 - Board's assurance statements should include confirmation that the charges rules have been followed and that companies have consulted with CCWater in an appropriate and timely manner.

2 Our response

Q1: Do you have any specific views on the draft rules for 2016/17 included in appendix 2? Are there any other rules which you consider should be included?

- 2.1 CCWater is generally supportive of the draft rules. However we do have some suggestions for additions and refinement.

Key charging principles

- 2.2 It would be useful for the key charging principles to clarify that there is no expectation for companies to undertake geographic de-averaging (Rule 14). In addition, we believe this section should specify that charges should be levied as fixed or variable amounts based on cost reflective charging principles reflecting whether costs are fixed or variable.

Payment methods

- 2.3 The rules direct companies to include provisions giving customers a ‘reasonable choice as to the time and methods of payment’ (Rule 24). We consider this point should be more prescriptive about what constitutes minimum requirements or should signpost to this elsewhere, such as the Ofwat debt guidelines.

Surface water drainage allowances

- 2.4 We agree that it is appropriate for companies to review their approaches to surface water drainage allowances where these currently operate in a binary manner. The inability to claim a partial rebate is currently a cause of complaint for some customers who have taken steps to reduce the amount of surface water they discharge to sewer. Companies should implement appropriate partial allowance schemes where this can be achieved without creating a significant additional administrative cost burden to customers as a whole.
- 2.5 We also believe there could be benefit in the rules setting out a minimum requirement in terms of the period for backdating surface water drainage rebates where neither the customer nor company were previously aware that the property was not connected for this service. Ofwat previously indicated that it would be expecting companies to review their approaches where they are currently limited to the start of the current charging year, however several companies have not yet done so.

Vacant properties

- 2.6 The rules do not currently require companies to set out their approaches to charging for vacant properties. We believe this information should be included in charges schemes in the interests of clarity and transparency.

Non-return to sewer charges

- 2.7 We consider that rules should set out a requirement for companies to make appropriate adjustments to metered sewerage charges where a customer can demonstrate that the water discharged to sewer is consistently less than the incoming water volumes, taking account of any allowance within tariffs for this. In addition where tariffs contain an in-built non-return allowance this should be

detailed within the charges scheme.

Retrospective adjustments/ recovery of undercharges

2.8 We would like to see companies required to include a statement in charges schemes committing to a reasonable approach to back billing. In the case of error companies should be required to:

- make retrospective adjustments if these are in the customers favour
- make no retrospective adjustment if there is clear evidence that undercharging was due to company failure.

Fire fighting water

2.9 For clarity companies should be required to include a clear statement confirming that water used in relation to fire fighting purposes is not chargeable.

Social tariffs

2.10 Rule 23 (b) should state that where provision is included, the charges scheme should either set out the eligibility criteria and level of reduced charges or signpost customers to where this information is held.

2.11 It would also be useful for the rules to include a requirement for companies to highlight that where different companies provide water and sewerage services different eligibility criteria may apply and that customers should check potential eligibility against both schemes. The schemes should also set out how companies will deal with claims in such cases.

WaterSure

2.12 The rules need to stipulate that it is a requirement for companies in England to operate the WaterSure (Vulnerable Group) scheme (or offer equal or better assistance to customers who would be eligible for WaterSure through their social tariff). Whilst section 2.1.1 of the consultation document reflects this the requirement is not currently included in the proposed charging rules.

Customer Challenge Groups (CCG)

2.13 Section 2.4 states that it would be 'good practice' for a company to engage with its CCG in relation to charges schemes. We agree it may be helpful for companies to keep their CCGs informed on the development of charges and CCWater will seek to work with CCGs on this.

2.14 In order to avoid confusion and potential disputes it would be Ofwat's rules should be as clear as possible that CCWater is the statutory consultee on charging matters and companies must reflect this in their approaches to consultation and engagement.

Meter option and reversion

2.15 It would be helpful to confirm that charges schemes should include details of the right to opt for a meter and for reversion, where applicable. Where companies offer extended deadlines for reversion this should also be set out.

Q2: How best can site area-based drainage charges be adopted? And what lessons can be learned from how companies have moved to this basis so far?

- 2.16 It is important for any company considering the implementation of site area based surface water charges to have a clear understanding of how this would impact on customers and to take this into account in the design of the scheme and the timescales for implementation.
- 2.17 It may be necessary for arrangements to be phased in over a lengthy period in order to reach the end goal of fairer charges which incentivise sustainable drainage without creating significant bill shocks for some customers. The companies should also work with affected parties to identify how they can make changes to their sites to minimise their burden on the surface water system and therefore their future bill.

Q3: Do you agree with our proposed threshold for ‘significant’ bill increase? If not is there evidence for a more suitable threshold? And how this can be assessed for different customer types?

- 2.18 We previously commented on this in response to Ofwat’s “Consultation on wholesale and retail charges for 2015-16 and charges scheme rules”.
- 2.19 We support the requirement for companies to carry out a proportionate impact assessment in developing their strategies for handling incidence effects resulting from changes to charges.
- 2.20 The 5% bill change figure (inclusive of inflation) seems appropriate as a formal trigger point for such impact assessments. However, companies should also give consideration to the incidence effects of bill changes below this level, where appropriate, taking account of what the ‘worst case’ impact would be. This may be necessary where:
- it is evident, that the nominal impacts for some customers, or groups of customers, could be significant or would fall on customers who might be vulnerable or sensitive to such impacts;
 - the increase is twice or more the rate of inflation (as per the RPI in the preceding November) for any or all groups of customers. Such an increase, especially at times of low inflation, is likely to arouse concern.
- 2.21 In both of the above cases companies should ensure there is early engagement with CCWater to identify options to mitigate any impacts.

Q4: Do you agree with our current preference of companies publishing their Board’s assurance statements?

- 2.22 We fully support this proposal to help ensure transparency.

Q5: Do you consider that the Board's assurance statement should cover anything else other than what we propose?

- 2.23 The current proposal for Board's assurance statements does not appear to include a requirement for explicit confirmation that the charges rules under consultation here have been followed. We believe this should be added.
- 2.24 We believe the statements should also provide explicit assurance that companies have consulted with CCWater in an appropriate and timely manner.

Q6: Do you agree with our current preference for companies to submit a statement of significant changes?

- 2.25 We support this requirement and would ask that companies also be required to provide this statement to CCWater at the same time.
- 2.26 In addition we believe it would be useful to require companies to publish their average household bill figure on-line (either individually or collectively) no later than 1 February each year.

Q7: Do you have any specific views on the proposals included in chapter 4? Are there any other rules and issues that you consider should be consulted on next year?

- 2.27 We welcome the proposed consultation on consumer protection issues, such as Deemed Contracts, and the consideration of the extent of standardisation that is desirable across wholesale tariffs. The market must develop in a way that delivers benefits for customers and also offers an appropriate level of protection for those customers who do not participate through either choice or lack of eligibility.
- 2.28 The correct allocation of costs between a company's wholesale and retail business is identified as a vitally important part of an effective retail market. We welcome Ofwat's plans to revisit the allocation of costs and its efforts to get companies to discover and reveal the efficient costs of the services it provides as part of the Water 2020 programme. Correct allocation is important to both allow the market to function and to prevent detriment (through an unfair cross-subsidy) to those customers who cannot participate.
- 2.29 We are also supportive of plans to pilot a further disaggregation of wholesale wastewater charges. CCWater advocated the introduction of competition for these individual services from April 2017 but recognise that the timescales and complexities involved in separating out different costs would make this difficult. Greater disaggregation would allow the entry to the market of niche retailers who can offer tailored services to customers.

Q8: Would it be practicable and/or desirable to include all non-primary charges in the wholesale charges scheme?

- 2.30 The success or otherwise of the water retail market is dependent on the effective creation of a level playing field to allow Retailers the opportunity to compete in a transparent and fair environment. Therefore there appears no justification for a Wholesaler not to publish a complete list of charges, primary and non-primary. The Wholesaler will need to know this information for its own purposes so it is not clear why it would not be practicable to publish it.
- 2.31 CCWater has received a number of complaints in the past regarding a lack of transparency and consistency in non-primary charges from both developers and the Fire Service. We have sought to encourage companies to make this information more transparent in their published charges schemes. The development of new charging rules is a good opportunity to make this a requirement in future publications. This transparency will also help to highlight apparent discrepancies in the provision of services in different areas of the country (something the Fire Service has raised in relation to hydrant charges). This could lead to pressure on companies to reconsider charges and therefore benefit consumers.

Q9: Do you have any specific views on the requirement to publish final wholesale charges for non-household customers no later than the first week of January?

- 2.32 Companies will be best placed to comment on whether the proposed timing of this.

Q10: Do you agree with our outline proposal that indicative wholesale charges be published in July and October?

- 2.33 CCWater was supportive of the proposal for early publication of charges included within Ofwat's Licensing consultation. We agree that it is necessary for this information to be as accurate as possible in order to be of use to Retailers in developing their charges and so agree that publishing indicative pricing in July with revisions in October following the availability of more information is a sensible approach.

Enquiries

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