



Anglian Water Services Ltd
Lancaster House
Lancaster Way
Ermine Business Park
Huntingdon PE29 6XU

Tel 01480 323000

Our ref:

Your ref: Not known

Email: [REDACTED]@AnglianWater.co.uk

Ofwat
Centre City Tower
7 Hill Street
BIRMINGHAM B5 4UA

BY EMAIL ONLY: charging@ofwat.gov.uk

2 November 2022

Dear Sirs

Consultation on charging innovation to support affordability

I am in receipt of the above consultation.

Our response to the questions in the consultation document is set out in the attached appendix.

Yours sincerely

ALEX PLANT
DIRECTOR OF STRATEGY AND REGULATION



Registered Office
Anglian Water Services Ltd
Lancaster House, Lancaster Way, Ermine
Business Park, Huntingdon,
Cambridgeshire. PE29 6XU
Registered in England
No. 2366656.

an AWG Company

Appendix 1

Q1: Do you agree that companies should be looking at how they can introduce charging innovation to support affordability, as well as supporting environmental goals?

Yes, we agree that companies should look at charging innovation as a means to support wider goals.

There are three primary routes available to undertakers in assisting customers with affordability. These are as follows:

- Support customers to use less water, and therefore reduce their bills, through practical advice and real-time information on their usage (facilitated through smart metering) so they can understand and manage themselves how they are using water.
- Support customers with budgeting and paying their bills through variable billing frequency, payment options, and timely intervention where customers appear to have difficulties in paying.
- Provide direct financial support to make their bills more affordable through the application of concessionary tariffs, by and assisting customers to access further assistance either through assessing their eligibility for unclaimed state benefits or partnering with the Third Sector to sign-post where and how further assistance is available.

Raising awareness and targeting this assistance to those customers in financial difficulties and other vulnerable circumstances is key to their effectiveness, and we understand the importance of “inclusive by design” in devising the suite of support available.

We note that the scope of the consultation is on charges, rather than social tariffs. As the document sets out, charges reflect costs and benefits, whereas social tariffs are discounts on charges that are means-tested. The Floods and Water Management Act 2010 explicitly allows undertakers to introduce cross-subsidy between customers, where otherwise to do so may contravene Condition E. Our understanding is that the 2010 Act was considered necessary to set aside Condition E even where cross-subsidies are explicitly designed to target those customers most likely to experience affordability problems.

We understand that Defra has outlined initial thinking that there would be no additional customer cross-subsidy outside of the proposed single social tariff (SST) in relation to affordability. To allow otherwise may undermine the objective of removing the “postcode lottery” as an ambition of the SST.

We conclude therefore that the primary focus of charges innovation is to signal to customers how to manage their usage and to encourage greater water efficiency, thereby helping them to manage the level of their bills.

We wholeheartedly support the principle that charges should reflect fairness, affordability and environmental protection. This approach endorses the changes we made to enshrine environmental and social purpose at the heart of our business when we took the ground-breaking step of changing our Articles of Association.

Q2: Do you have any comments on our regulatory framework for protecting customers, in the context of charging innovations?

Our comments primarily relate to the charging rules and the revenue controls.

The revenue controls set at the Price Review determine how much revenue we can recover from customers in aggregate. If we recover more or recover less, then the resulting variance will be trued-up in subsequent charging periods.

The resulting charges based on the allowed revenue must be reflective of the long run costs associated with providing the service covered by each control. It is fair that customers pay for the service they receive. We therefore support metered charging as the fairest approach to charging. Currently we have installed 440k smart meters, which puts us at 20% to planned roll-out. Our target for end of AMP7 is 1.1m installed i.e. 50% roll-out, and, as proposed in our draft WRMP, to be as close as is reasonably practical to total coverage by 2030. We also consider that the price signal attached to each unit of water through metered charging is an important demonstration to customers that water is a precious commodity and helps to maintain awareness of the impact on the environment from all water use.

Therefore, where the service is notionally equally provided to all customers, if one customer pays less for that service, then another customer must pay more for the service. If one unit of service is charged at a higher rate, then another unit of service must be charged at a lower rate. The resulting behaviour resulting from this price signalling must therefore be consistent with overall goals.

Water and sewerage is a relatively small proportion of household budgets compared to the cost of other utilities. Nevertheless, the affordability of water and sewerage charges must be considered in the context of wider household budgets. Applying differential charging based on higher consumption, given the relatively low starting point and the low price elasticity of demand, may require a significant uplift in price before usage is curbed. This risks creating affordability issues for some customers even in relation to non-discretionary demand. Equally, differential charging for low usage risks charges not being cost reflect. We withdrew our SoLow tariff, targeted at low users, due to such concerns. The concept of meta data may suggest that customer information is more easily available to support such differential charging than in the past, but maintaining and verifying that data may create significant transaction costs.

The regulatory framework needs to allow companies to test whether differentiated tariff structures and price signals result in the intended behaviours and impacts. "Time-of-use" tariffs and premium charges related to type of use for both household and non-household customers appear to have the widest potential application, especially with the roll-out of smart metering.

Q3: Do you have any comments on our proposed principles for good practice charging trials?

Q4: Do you have any comments on Ofwat's role in supporting good practice charging trials?

We agree with the proposed principles for good practice and Ofwat's role in supporting trials.

We fully support the starting point that trials need to be designed based on an understanding of customer needs and characteristics. This is critical to assessing whether a proposed structure or the pricing to be tested is likely to result in the behavioural change or impacts targeted.

We have pursued an understanding of customer responses to messaging and wider incentives through our interaction with customers in Newmarket using our "Shop Window" project. We also commissioned a report from the Centre of Competition Policy at the University of East Anglia to better understand how price and behavioural signals could interact with customers to encourage water conservation. The full report is attached to the email and a link provided below to the published article¹. We are currently completing a literature review regarding discretionary use to better understand how and when customers use water, and how they value that use.

Similarly, we have looked to understand the extent to which price signalling would result in behavioural changes related to the management of surface water drainage that could help us achieve our operational goals related to this service.

Q5: Do you have any comments on the discussion regarding our charging rules and related regulatory compliance?

We welcome the introduction of general charging principles.

We note the UK Government's charging guidance sets out that "innovative tariff structures can send positive price signals and improve economic and environmental efficiency. This might involve pricing to reflect seasonal peaks or incentivise collection and use at times of lower demand. Rising block tariffs can also have a role in encouraging customers to consider their use of water. However, as above, the introduction of such tools needs to be properly evaluated including with regard to customer affordability and acceptability".

Therefore, the introduction of innovative tariff structures needs to include evaluation as to any unintended consequences for affordability for customers. Ofwat's clarification on the relevance of Condition E to the establishment of tariff trials is therefore welcome, as is the reference to environmental protection in the charging principles in relation to pricing to incentivise greater water efficiency in the non-household market.

It may be that the application of Condition E in the context of rolling-out future tariffs targeted to incentivise water efficiency also needs clarification.

¹ <https://research-portal.uea.ac.uk/en/publications/price-and-behavioural-signals-to-encourage-household-water-conser-3>