

By Email: charging@ofwat.gov.uk

Charging Team
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Dear Emily,

Consultation on charging innovation to support affordability

Overall, we support the proposals in the consultation as they set regulatory expectations, provide guidance for companies in tariff trial development and increase certainty by modifying charging rules and providing helpful interpretation of Condition E. We provide a more detailed discussion below, structured around the questions set in the consultation paper.

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.

In addition to the UK government priorities set out in SPS and CCW's independent review of water affordability conclusions, our own strategic direction statement¹ outlined our direction towards a system of charging where those that can afford it and use more water during peak times pay more, and others pay much less for their essential daily water use.

However, we are not waiting for PR24 to innovate. For the charging year ahead and in addition to social tariff and Watersure assistance, we are to:

- Introduce an affordability scheme for 2023/24, which will provide bill support to alleviate cost of living pressures for up to 30,000 customers
- Rebalance the fixed and variable elements of our tariffs to mitigate bill effects on single occupier households where affordability risks are most concentrated and give metered customers more control over their bill
- Continue to operate and learn from our Water Assistance pilot scheme (which provides direct bill support for up to 300 elderly customers in Luton, for instance customers who have experienced delay to receipt of benefits)
- Trial a rising block tariff to determine how a different tariff design could lead to fairer outcomes

¹ Designing our Future Together (Dec 2021) [AW0031_Strategic-direction-statement.pdf \(affinitywater.co.uk\)](#)

Therefore we agree that companies should be investigating how they can develop new approaches to charging that support fairness and affordability objectives.

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

We think the good practice principles are sensible and are aligned with the matters we are considering and resolving as part of our tariff trial development. We are ready to participate in industry collaboration around a common approach to design and evaluation of trials. We would note however that trials to be introduced in 2023/24 may not be fully aligned with what may subsequently be agreed at future industry collaboration.

We support the principle of sharing of learning from trials. For example, information from our previously conducted trials of block tariffs and seasonal tariffs informed Anglian's 2017 study on price signals and behaviour change.

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

We welcome Ofwat's suggestion that it could support trials through its communication channels. From trials we have operated in the past, we know that a small number of customers suspect trials as being profit-led. Therefore we see an Ofwat web page with information and FAQ as a helpful initiative likely to supplement our own customer engagement activity.

We further fully support CCW engagement in proposed trials. We cannot see how we could realistically proceed with a tariff trial without having engaged with CCW, listened carefully to their representations and made appropriate adjustments to our approach as needed.

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

We welcome the proposed alterations to Charging Scheme Rules. New Rule 12 introduces the general principles for charging that already exist in rules for wholesale charges and new connections and reflect the government's charging guidance. We also welcome the amendments to what will become Rule 13. Whilst we have not interpreted operation of tariff trials as a violation of existing charging rules, we think it helpful to remove any doubts on this point and consider that the proposed wording accomplishes this.

Similarly, whilst we have not interpreted Condition E as precluding well-designed and time-limited tariff trials, we think it helpful for Ofwat to have confirmed that tariff trials aimed at furthering charging principles/objectives are not infringements against Condition E.

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We would add that we see Condition E as not just about prices paid. Trials might also include differential service levels such as more frequent meter readings or billing, enhanced communications or water efficiency information. It might be worth Ofwat clarifying that trialling different service levels is also not infringement.

We agree that to be within charging rules for publication and information requirements, companies must publish their charges schemes, including sufficient information about any trial tariffs that will apply in the charging year. However, in our view it does not necessarily follow that trials themselves need to become operational on 1st April each year (first paragraph of p.36 refers). For instance, if a company wanted to commence a trial on say 1st July or 1st October, why should it not be allowed to do so? (assuming of course that this intent is set out in the charges scheme and that the tariff is operated for 12 months from that date, or otherwise assessed contemporaneously against a suitable control group).

Yours sincerely,

Martin Hall

Head of Economic Regulation