

Charging innovation to support affordability Southern Water response

November 2022



from
**Southern
Water** 

Introduction

Thank you for the opportunity to respond to this consultation on the approach to driving innovation through charges to support affordability.

There is an ever-increasing need to put sustainability goals, as well as affordability considerations, at the centre of innovation when setting charges. We welcomed CCW's Affordability Review last year and Ofwat's more recent Paying Fair Guidelines.

Earlier this year, we commenced investigating options by commissioning a report from expert consultants to explore differentiated charging structures. The purpose of the report was to gain targeted insight from an economic perspective. We also requested that the report provide recommendations on the best options to achieve both improved affordability for our customers and to promote water efficiency. We have submitted the report to Ofwat's Future Ideas Lab and are currently considering how to take forward the recommendations including the possibility of some tariff trials.

We agree with, and welcome, the proposed principles for good practice and offer of enhanced support from Ofwat. We also fully support the proposal to change the charging rules which explicitly highlight the above charging principles and will result in the removal of a potential barrier to trialling new charging structures.

Consultation questions

Statutory consultation

We support the proposed changes to the Charges Scheme Rules which will remove a potential barrier from preventing water companies from trialling new charging structures and introduce a new charging rule that will mirror the general principles already stated in the Wholesale Charging Rules that companies should consider when setting their charges.

Consultation on charging innovation to support affordability

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 have already commenced doing our own research and analysis to explore alternative charging structures. The proposal for Ofwat to remove barriers to trialling new charges is very welcome and timely. We welcome the opportunity and encouragement to focus on these goals, and to balance them alongside the other principles of fairness and stability and transparency.

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

We agree with the current framework and the support from Ofwat and CCW to protect customers. We also appreciate the support and encouragement we have received in respect of increasing funding available to customers most in need of support. However, we have noted that the current Revenue Forecasting Incentive mechanism for wholesale revenue penalises any revenue variances that breach the 2% variance threshold, irrespective of when a company purposely defers revenue in the interest of maintaining bill stability and to avoid excessive bill increases for customers. We believe this should be improved upon and that a mechanism should be in place to differentiate between the underlying reasons for variances. The risk of being penalised may act as a deterrent to companies in relation to charging innovation and the trialling of new structures.

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

We agree with the proposed principles and encouragement to collaborate and share learning across the industry. We note that the principles state that “Charges need to be acceptable overall to the customers in the trial.” On this point, we believe it is likely that not all charges in trials will be acceptable to all customers. Perhaps some guidance or industry-wide agreement on an appropriate level of majority acceptance could be considered. This would help companies avoid spending disproportionate resource on pre-trial communication or experiencing undue delays, if trying to gain 100% acceptance from customers before trialling commences. There could also be a standard “opt-out” option for those customers who strongly disagree with the charging trial.

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

We believe that support from Ofwat will significantly help to progress and encourage innovation in this area. Additional public reinforcement that changes are truly centred on benefitting affordability and on achieving environmental goals can only serve to make a positive impact.

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

We support the proposed amendments to the Charges Scheme rules. We appreciate the proposed changes will be consistent with CCW's Affordability Review and will align with the charging guidance by both the UK Government and Welsh Government which highlight the importance of balancing between different principles and objectives.