

Consultation on charging innovation to support affordability

United Utilities November 2022



Thank for the opportunity to respond to your non statutory consultation on charging and innovation to support affordability.

We recognise concerns that recent rises in the cost of living is putting pressure on household budgets. Our own interactions with customers increasingly demonstrates this growing challenge. Water charges affect every household, and it is incumbent on all stakeholders in the water industry to consider what actions we can take to help alleviate the pressure water charges place on household affordability.

Charging rules and tariff design is one way in which water companies can help bill affordability. Introducing greater flexibility in charging guidance to allow wider trials of new tariff designs presents a clear opportunity for water companies to seek to innovate in this area for the benefit of customers. Innovation in this area also provides opportunity to promote environmentally sustainable practises with customers, providing clear rewards for those that adopt sustainable practises for the benefit of all.

Earlier this year we worked with Frontier Economics to identify opportunities to develop our own customer tariffs. Following a review of opportunities to use customer tariffs to incentivise customer behaviour Frontier concluded that there are a number of behavioural tools that water companies can use to incentivise customers to adopt sustainable behaviours, including customer tariffs.

Following review of the charging innovation consultation we believe that:

- The proposed reforms to charging guidelines, to enable greater opportunities for companies to develop tariff trials is a positive step.
- We recently conducted a study into potential tariff reform with Frontier Economics. This work identified that innovation around 'two part charges with rebate' tariffs (tariffs with an element of 'reward' for customer behaviour change) seems a particularly promising area to consider in the North West.
- Therefore we are considering bringing forward trials on incentives for metering and/or digital service uptake, and believe these reforms will enable us to bring forward these trials more quickly than would otherwise be the case.
- Proposals to ensure companies share findings from trials is crucial for collective industry improvement.

In line with the focus of this consultation our response does not comment on potential social tariff reforms, including the proposed introduction of a Single Social Tariff. We continue separately to engage with a number of industry working groups helping to develop reformed social tariff arrangements for the Water industry.

We have also developed a response to the statutory consultation on updates to the Charges Scheme Rules. This reply has been sent separately, but we believe is consistent with the response here.

We would be happy to discuss further any of the comments or observations discussed in this response. We have provided further detail in our response below, aligned to the specific questions raised within the consultation.

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?

The proposed reforms to charging guidelines, to enable greater opportunities for companies to develop tariff trials is a positive step. We are already innovating within our charges, with schemes like Lowest Bill Guarantee (helping customers overcome loss aversion when considering the option to switch to a measured charge). However, historically it has been difficult to be confident about trialling and advancing such reforms. We are keen to take up the opportunity to launch further trials, and alteration of guidance in this area should help make this possible.

Well-designed financial incentives have proved to be one of the more powerful reasons for customers to change behaviour. For example, at its most basic level, it has been repeatedly observed that customers that pay a measured charge adopt more water efficient behaviours than unmeasured customers do. Our own water efficiency campaigns and research repeatedly observe that promoting the money saving benefits of water efficient behaviours is one of the most effective ways to drive customer engagement.

We recently conducted a study into potential tariff reform with Frontier Economics. This work identified that innovation around ‘two part charges with rebate’ tariffs (tariffs with an element of ‘reward’ for customer behaviour change) seems a promising area to consider in the North West. This is due to the relatively low metering rates in the region, which means there are high numbers of customers that could benefit from taking up a free meter option.

“Using [reward] incentives to encourage installation of water meter and water efficient devices performs well against all of our assessment criteria. These incentives could be developed in more detail and implemented in a relatively short timeframe. These incentives are likely to be more effective for household customers.”¹

Therefore we are considering bringing forward trials on incentives for metering and digital service uptake for household customers. These trials could be focussed on alternative charging structures that take in a wider range of costs and benefits when assessing price differentials between measured and unmeasured charges. We believe these reforms will enable us to do so more quickly than would otherwise have been the case. We are also considering opportunities to reform both household and non-household tariffs to incentivise water saving behaviours, reducing sewer misuse, and reducing storm water drainage to combined sewers.

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

The current regulatory framework, with its multi pillar approach to protecting household customers’ interests appears to be appropriate. Measures such as C-MeX are demonstrating a generalised improving trend in measured customer experience. Revenue controls allow a degree of flexibility for companies to reform tariffs to offer lower charges for those in need of support, provided that such changes are consistent with existing charging guidelines.

Non-household customers’ interests are protected via different mechanisms, as necessitated by the competitive retail market. We recognise there are some concerns that the levels of protection for non-households may require strengthening, especially in the case of SMEs, and we are supportive of efforts to improve protection, for example through the introduction a new BR-MeX metric.

We agree that wholesale charging structures are important, and often directly influence retailers’ end customer tariffs. In particular we are interested in the environmentally positive behavioural incentives charging design can have on non-household customers and retailers. We are exploring opportunities to develop new innovative tariffs in this area, whilst recognising the important market efforts to simplify and standardise wholesale charging structures across companies.

¹ Frontier Economics, Assessment of selected tariff approaches to incentivise customer behaviour - A report prepared for United Utilities Water, January 2022

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

and

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

We agree that careful planning and design of trials is appropriate. Requirements to share trial findings across companies is particularly welcomed, as there are a wide range of potential reforms, and learning from others is a proven route to help all companies focus on the most effective interventions. We will share the results of our future tariff trials as and when findings become available. As new trials and innovations emerge over time we believe there could be merit in organising regular charging innovation events, so all companies can present and learn from others' findings.

In addition to the proposed guidance reforms we believe there may be merit in considering greater flexibility around the timeline for introducing innovative tariff trials. For example it may be possible to safely introduce some types of small scale trial tariffs every 6 months, provided customers are protected. This would allow for swifter iterative improvement of tariff designs.

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

We are supportive of the proposed changes. Please see our response to the related formal consultation.