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By email: [charging@ofwat.gov.uk](mailto:charging@ofwat.gov.uk)

3 November 2022

Dear Sir or Madam,

**Re: Consultation on charging innovation to support affordability**

At the moment we are in what is described as a cost of living crisis within which our customers, and ourselves as water companies, are seeing large increases in costs on all purchases.

The impact is clearly being seen in the research that has been undertaken within the research quoted within the consultation paper, as it reports an increase in customer perception that their water bills are becoming increasingly unaffordable. As observed in the research the largest impact currently being felt by customers is the increase in energy costs, which we as a company are also seeing directly within our energy costs and indirectly within the cost of materials and chemicals.

Against this back drop of the cost of living crisis, it is recognised that the Water Industry is being directed to make large investments to meet both environmental and resilience challenges, and that the industry itself is not immune to the current cost of living crisis, in fact it is more exposed due to the regulatory use of CPIH which does not cover the real price input pressures that are being observed. CPIH is not a true reflection of the actual mix of costs that are incurred.

These pressures mean that whilst the economic regulator continues to drive efficiency, within the price review process, the revenue allowances will need to reflect the additional funding required to meet the environmental, resilience and impact of the cost of living crisis, which will result in an increase in real terms.

These increases in revenues will lead to bill increases and we agree that a move should be made away from an indicative average household bill to an assessment of what is in fact an affordable bill.

We appreciate affordability is hard to measure, as there is no clearly defined method regarding how we assess this. There is no understanding of what, if any, level of water bill should be seen as affordable. This is further complicated by the realisation that affordability levels will be different across different customer groups. This difficulty is highlighted in that there is still ongoing work on how to measure water poverty.

We do feel that the management of affordability of bills would be more effective across all water companies if all customers were able to be metered and were offered the same level of meter technology.

Currently each water company is at a different level of meter penetration, different levels of meter technology being deployed and continuously have had different levels of funding to achieve these positions. To balance this position out across the Water industry, as a whole, would take time and additional investment. The irony of this would be that it would drive a higher level of investment in the industry which would then impact on the affordability of bills.

We are anticipating to start a trial in a pilot area where we are installing smart meters, this may assist in developing future charging innovation if we are able to increase our coverage of meters, especially smart metering, over the next AMP. However, any near term proposals that we may bring in under the charging innovation arena may be more akin to social tariffs rather than additional volumetric tariffs because of the existing constraints that we have under current meter penetration.

Whilst we have not covered our current, and developing, initiatives that we have to assist our customers within this response, we would request that you refer to our response to the "Supporting customers through cost of living pressures Joint Ofwat and CCW letter" for more details.

Yours faithfully,



Chris Offer, Director of Strategy and Regulation 

## **Response to consultation questions**

### **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 principle we do believe that companies should be looking at any changes to charges that could better reflect the cost of service that customers receive and to ensure that it supports affordability where it is applicable.

We believe that the request for charging innovation needs to be directly linked to a desired outcome for customers, with a clearly defined method of defining affordability, the legitimacy of what is being driven needs to be clear and the protection of fair billing for all customers should be maintained.

We recognise that we are currently in what is described as a cost of living crisis, within which our customers, and water companies, are seeing large increases in costs on all purchases.

The impact is clearly being seen in the research that has been done, as customers are reporting the perception that their water bills are becoming increasingly unaffordable when they take into account the impact of this in the round on their disposable income.

We know that the largest impact currently is the increase in energy costs, which we as a company are also seeing directly within our energy costs and indirectly within the cost of materials and chemicals, however any support that could potentially be given does need to be investigated.

Affordability of water bills, as yet, is hard to assess as there is no clearly defined method regarding how we define disposable income or what, if any, level of bill should be seen as affordable.

We also would like to note that the ability for all companies to be able to drive innovation of charges may be impacted by the fact that each company is at:

- a different level of meter penetration,
- a different level of meter technology being employed,
- continuously have had different levels of funding to achieve these positions.

To balance this position out across the Water industry as a whole it would take time, and additional investment across all companies, which may in itself be unaffordable when compared to the benefits it delivers.

As a result any immediate proposals that we may bring in under the charging innovation arena may be more akin to social tariffs rather than additional volumetric tariffs because of the existing constraints that we have under existing meter penetration.

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

As stated in the consultation there are risks, as well as benefits, to customers that can occur with any rebalancing or methodological changes to tariffs.

We agree that the existing requirement within the charging guidance, that all charges must be tested, evidenced, communicated and handling strategies must be developed if the impact is assessed as being significant, should apply to trial charges as well.

We also believe that any changes to charges under the title innovation must be developed and tested, and clear benefits to customers must be demonstrated.

There must also be a recognition in any proposed changes to licence conditions that the ability for all companies to be able to drive innovation of charges may be impacted by the fact that each company is at:

- a different level of meter penetration,
- a different level of meter technology being employed,
- continuously have had different levels of funding to achieve these positions.

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

We feel that these are a good basis as guidelines, with them being reviewed in light of any proposed trials to test whether they need to be refined to reflect practical application.

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

The early engagement with all stakeholders throughout any trials is the key to assessing the success of any innovation across the industry, and will ensure

realistic expectations of what can be delivered with regards to benefits to customers and the costs associated with the delivery for individual companies.

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

We have noted the proposed amendments.

We only have one area that we would like to discuss further, the stipulation that the trial charges need to be understood and published by the 1 February, with the assumption that this will be in place for the full year.

This may preclude trials from starting until 1 April 2024, which may be too late for inclusion in PR24.

Would there be the ability to consider allowing companies to update charges schemes with charges that support trials that are agreed after the 1 February 2023 publication. This would allow:

- Companies and Ofwat time to follow the good practice guidance
- Collaboration on trials, especially where specific results are being observed by one company the trial could be rolled out in another area to test
- Changes in metering areas/technology within companies which enable different trials than initially developed in time for publication of charges.