

March 2023

Conclusions on charging innovation to support affordability

About this document

This document concludes on the policy questions set out in our [September 2022 consultation on charging innovation to support affordability](#). We explored how water companies could use innovation in household charges to support affordability, and potentially other sustainability goals including greater water efficiency. We called on water companies to conduct charging trials that are accompanied by effective customer engagement and support.

We are grateful for the pertinent and in-depth responses from many stakeholders and companies to our consultations and the contributions to our November 2022 workshop. We welcome the support for charging trials shown by companies and the Consumer Council for Water (CCW), particularly the proposed trial of a rising block tariff by Affinity Water. We have published [responses to our September 2022 consultation on charging innovation](#) on our website.

We published a statutory consultation as required when we propose changes to the Charges Scheme Rules alongside our September consultation, which we concluded on in our [December 2022 decision document on changes to our Charges Scheme Rules](#) which come into effect on 1 April 2023. The changes remove a potential barrier preventing water companies from trialling new charging structures, and lists general principles which companies must now consider when setting their household charges.

Following an executive summary, our conclusions document is structured as follows:

- In chapter 1 we summarise responses to our September consultation and set out our decisions on the changes we proposed.
- In chapter 2 we set out new case studies, with two companies innovating to support affordability and alleviate water scarcity, and we report on the sector workshop to support charging trials.
- In chapter 3 we conclude on our consultation and highlight next steps, in particular companies' PR24 business plan submissions which are a key opportunity to demonstrate ambition with respect to charging innovation.

Executive summary

An increasing number of customers are struggling to pay their water bills and the rise in the cost of living puts a sharper focus on affordability challenges. At the same time, climate change poses significant long-term challenges to the sector. A wide range of tools are needed to tackle these issues and new approaches to setting charges can play a role to support affordability, as well as other objectives such as incentivising water efficiency.

Our September consultation examined how water companies could use innovation in household charges to support affordability, and potentially other sustainability goals. We called on water companies to conduct charging trials that are accompanied by effective customer engagement and support. We received consultation responses from a range of stakeholders.

Respondents agreed that companies should innovate in their charges to support affordability and wider environmental goals, and that trialling new charges with smaller groups of customers would be valuable. They supported the aim that companies should collaborate more with each other in all aspects of trial design, implementation and evaluation.

Several consultation responses also highlighted that more investment in metering (and smart metering in particular) would facilitate charging trials. While there was general agreement that our current regulatory framework protects customers and does not pose barriers to trialling new charging approaches, suggestions were made about possible implications in the future from some regulatory features (for example C-MeX, D-MeX¹ and the Revenue Forecasting Incentive (**RFI**)).

We held a workshop with water companies and CCW in November 2022. Key discussion topics were how to involve customers in the development of trials; how companies could design and evaluate trials; and what might be the risks, challenges and opportunities with running trials. There was strong support for companies to continue to develop their thinking on charging trials, and for Ofwat and CCW to facilitate sector collaboration and the sharing of learning.

Affinity Water plans to run a charging trial in 2023–24, piloting a rising block tariff. We welcome the company's initiative to trial a more innovative charging approach and we will be engaging with the company to promote good practice in the trial. We also set out the innovation shown by South West Water in its Stop the Drop incentive scheme.

Our conclusions on the consultation are as follows:

- **Charges schemes clarification** – we confirm that companies can commence, and conclude, a charging trial at any point in the charging year, as long as the charges that

¹ C-MeX and D-MeX are the customer and developer services measures of experience, which are financial incentives, [Customer and developer services experience - Ofwat](#).

will apply to customers selected to participate (and the circumstances under which a trial will or will not apply) are set out in the charges scheme to take effect from 1 April.

- **Good practice principles for charging trials** – we confirm the good practice principles for charging trials, as set out in Figure 1. We also note that these principles are primarily for household trials: while the principles are also important for non-household trials, there are differences in that for English companies the billing relationship is between customers and retailers.
- **We will support good practice trials** (trials that are consistent with good practice principles) through communication and through facilitating shared learning:
 - We have set up a webpage to disseminate more information about charging trials, to highlight companies' work and the good practice charging principles, which we will review and update as a result of learnings from trials.
 - We have set up a file sharing space to allow water companies and CCW to share research and information on charging trials, and to encourage active conversations about their approaches.
 - We will work with industry to provide reassurance in communications with customers regarding charging trials, where we are satisfied that companies are following the good practice charging principles.
- **CCW** – we welcome CCW's engagement and support for trialling innovation in charging to support affordability. CCW has a pivotal role to play in the development and delivery of successful charging trials, for which effective customer engagement and support are paramount. We welcome CCW's commitment to this work in its forward work programme 2023-24.

Affinity Water is providing leadership in its preparations to launch a trial in 2023-24. Key next steps for all companies are to set out their plans for any charging innovation in their PR24 business plans, which they submit to us in October 2023, as a way to demonstrate their ambition in supporting affordability for customers. But we are clear that companies should not wait until PR24 to act on affordability challenges: to deliver charging innovation, we anticipate that companies will engage with us and CCW in the coming months and publish charges to be used in charging trials as part of their 2024-25 charges schemes.

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1. Consultation responses

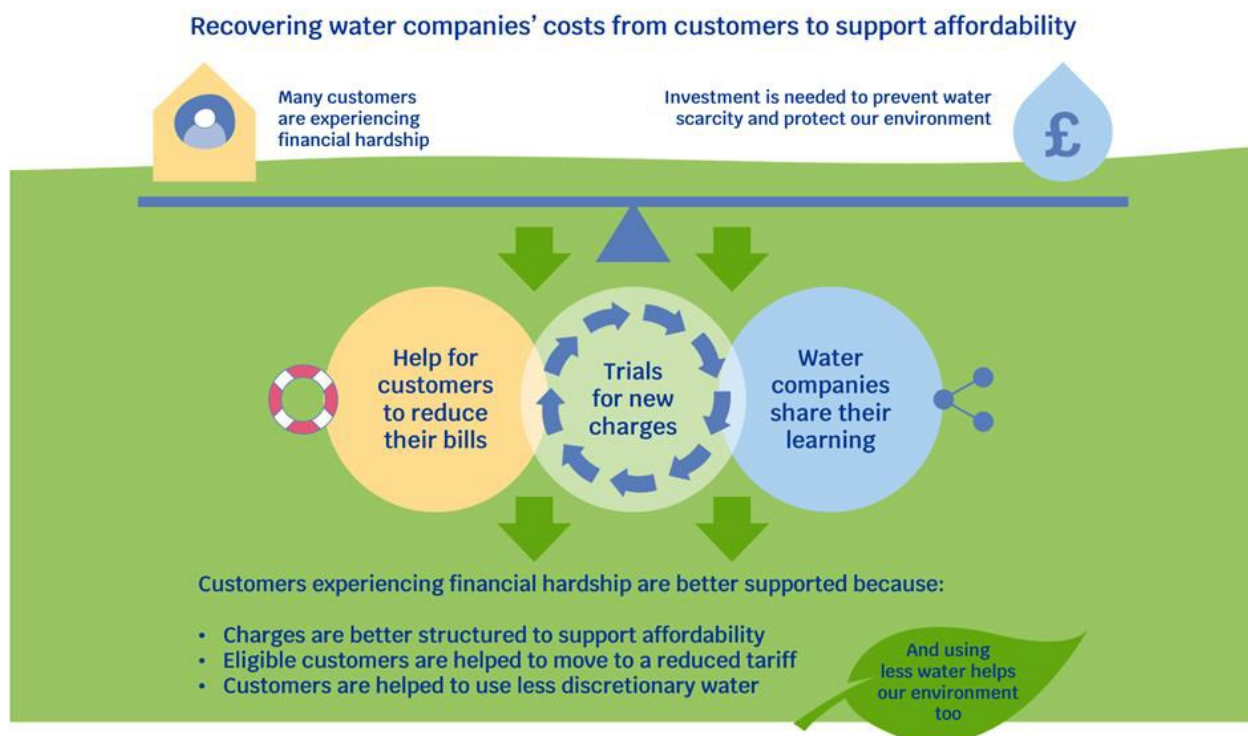
1.1 Our September consultation

Our September consultation examined how water companies could use innovation in household charges to support affordability, and potentially other environmental goals including greater water efficiency.

We wanted water companies to think more creatively about charges and establish trials directed at supporting customers struggling to pay or incentivising customers to reduce discretionary demand for water. In our consultation we wanted to explore how companies might do that, undertaking high quality trials where customers are supported and companies' learning is shared.

Figure 1 illustrates how new charging approaches could help with affordability, as well as supporting environmental goals.

Figure 1 – Charges to support affordability



We set out:

- That companies' charges have the potential to help household customers struggling with the cost of living, as well as potentially helping households and non-households achieve other goals, such as water efficiency.

- How we use our current regulatory framework, in partnership with CCW, to protect customers. We use insights to test our policies and challenge companies' performances; our financial and reputational incentives hold them to account and provide a focus on improving customer service; and our charging rules, price control framework and companies' licences emphasise value for money while giving companies flexibility to provide services targeted to meet their customers' needs.
- How companies currently charge and what innovation in charging may look like. We gave examples of different types of charging structure, including smart tariffs used in the energy sector.
- Principles highlighting good practice, to guide companies in setting up, running and evaluating charging trials. We also suggested how Ofwat and CCW might support companies, for example through publicising trials and giving confidence to consumers about the aims of trials, as well as supporting companies as they share with each other what they learn from running trials.
- Information on Ofwat's duties, including the role of UK and Welsh governments' Strategic Policy Statements for Ofwat and charging guidance to Ofwat.
- How our charging rules do not present a regulatory barrier to running trials, and proposed changes to our charging rules to support affordability and better environmental outcomes.

1.2 Summary of responses

We received 25 responses to our non-statutory consultation on charging innovation to support affordability, including from 3 individuals, a business retailer, 2 non-governmental organisations and a county council, as well as CCW, a new appointee and 16 water companies. We thank all respondents for their input. We include a full list of respondents in Table 1 and have published [responses to our September 2022 consultation on our website](#).

Respondents gave us a range of views on the questions we asked, although support was strong for our aims in general. Respondents made these specific points.

- They agreed that companies should innovate in their charges to support affordability and wider environmental goals, and that trialling new charges with smaller groups of customers would be valuable.
- They supported the aim that companies should collaborate more with each other in all aspects of trial design, implementation and evaluation.
- They highlighted that more investment in metering (to achieve greater penetration and increase the number of smart meters) would facilitate charging trials, but the absence of metering is not an insurmountable barrier to charging innovation.
- They broadly agreed with our current regulatory framework for protecting customers, but suggested that some features (for example C-MeX, D-MeX² and the Revenue Forecasting

² C-MeX and D-MeX are the customer and developer services measures of experience – you can find more details on our website [Customer and developer services experience - Ofwat](#).

Incentive (**RFI**) could be adjusted to take account of those customers taking part in charging trials.

Table 1 – Respondents to our September consultation

Water companies, including new appointees				Other respondents	
Affinity Water	Portsmouth Water	Southern Water	United Utilities	Arqiva	Individual
Anglian Water	South Staffs Water	Severn Trent	Welsh Water	Consumer Council for Water (CCW)	Individual
Independent Water Networks	Sutton and East Surrey Water	South West Water / Bristol Water	Wessex Water	Everflow	Individual
Northumbrian Water	South East Water	Thames Water	Yorkshire Water	Hampshire County Council	Waterwise
				National Energy Action (NEA)	

In the rest of this chapter, we summarise consultation responses for each proposal, and explain how we intend to proceed. Where respondents make the same comments in relation to more than one question, for simplicity we do not repeat them. Where respondents make a comment that could apply to more than one question, we summarise under the most relevant question.

1.3 Responses to Question 1

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

What we said

Companies' charges have the potential to help household customers struggling with the cost of living, as well as potentially helping households and non-households achieve other goals, such as water efficiency.

Respondents' views

Respondents agreed there is scope for innovation. We note the following comments.

- CCW, Severn Trent and Yorkshire Water highlighted that more investment (for example for smart metering, greater metering penetration) could help; National Energy Action (**NEA**) added that increased smart metering can allow customers to see the effect of changes in behaviour quickly, but could also have negative impacts that would need to be managed.
- South Staffs Water agreed in principle with supporting affordability, but said it should be achieved through social tariffs, with charging trials used to target water efficiency and high discretionary use.
- NEA and South West Water mentioned the opportunity for companies to offer customers more choice of charges. South West Water noted the challenges in designing charges to reflect ability to pay, so charges with choice (for example green tariffs) can be more progressive.
- Portsmouth Water noted the biggest challenge is to ensure large families are not penalised for high essential use and added that providing information on water savings may be more useful than charging trials.
- Wessex Water noted the importance of customer satisfaction when considering trials; it referred to the views it received when testing similar options with customers through its 2013 Smart Dorchester trial.
- Everflow noted that affordability is not a main issue for non-household (**NHH**) water and sewerage customers and that environmental objectives should be the focus for the NHH market.

Our view

We are encouraged that there is widespread support for greater innovation in charges – both for household and non-household customers. Some of the responses highlighted risks – this is why charging trials can play an important role in the development of more innovative charges and gaining customer trust and acceptance of different charging approaches.

We note that some companies may focus their work on innovative charges to deliver better environmental outcomes, and that pursuing such outcomes might be more appropriate for certain customer groups (for example NHH customers).

In relation to companies' measures to support affordability, we consider charging innovation as a complementary measure to (not a substitute for) social tariffs, with the potential to support affordability for the much broader group of customers who are struggling to pay. Our [cost of living wave two research](#) (conducted in October 2022) found that just over half of household water bill payers reported that they have struggled to pay one or more household bills fairly frequently over the past year; but of these customers only 15% received financial support for their water bills (including social tariffs and debt support).

1.4 Responses to Question 2

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

What we said

We use our current regulatory framework, in partnership with CCW, to protect customers. We use insights to test our policies and challenge companies' performances; our financial and reputational incentives hold them to account and provide a focus on improving customer service; and our charging rules, price control framework and companies' licences emphasise value for money while giving companies flexibility to provide services targeted to meet their customers' needs.

Respondents' views

There was general support expressed for the current regulatory framework. Respondents noted the following points to consider further.

- CCW noted that trials will produce losers as well as winners, and CCW and NEA said they may need additional protection.
- United Utilities suggested the protections for NHH customers may need strengthening; Everflow said low usage NHH customers are hampered from engaging in the market by the REC price caps, which they view as being overly tight and not cost reflective.
- Southern Water said the RFI should allow for those companies running trials to have larger variances, to avoid undue penalties; CCW noted the companies should assess the possible effects on RFI when considering trials.
- Severn Trent, South West Water and Wessex Water noted the possible disincentive to innovate due to the threat of negative C-MeX scores from customers on charging trials. Wessex Water suggested removing charging trial customers from C-MeX scoring and South West Water suggested monitoring C-MeX or introducing a separate

scoring system. Welsh Water noted that there would be only a small effect on C-MeX due to the small number of customers involved.

- Anglian Water said the framework needs to allow companies to test whether differentiated charge structures and price signals result in the intended behaviours and impacts.
- Welsh Water said behavioural studies could inform charging trials.

Our view

Our regulatory framework includes a number of tools to protect customers. Some of the good practice principles we consulted on highlight the importance of engaging with customers and providing social tariff support, and considering complementary support for certain trial groups.

We have noted that there are risks associated with changes to how companies approach charging, but those risks can be mitigated by careful design of trials and learning from experience. We agree it will be important for companies to evaluate the effects of any trials they implement and that proposals for effective monitoring and evaluation must be part of the trial design.

We address some of the comments regarding C-MeX and the RFI in section 1.6 (responses to question 4 and our views).

1.5 Responses to Question 3

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

What we said

We outlined principles highlighting good practice, to guide companies in setting up, running and evaluating charging trials. We also suggested how Ofwat and CCW might support companies, for example through publicising trials and giving confidence to consumers about the aims of trials, as well as supporting companies as they share with each other what they learn from running trials.

Respondents' views

There was general support among respondents, especially for sharing learning from trials. These are some specific observations by respondents.

- South West Water said the key factor was whether customer participation in trials was optional or mandatory; successful trials would need both winners and losers to yield the most meaningful results. Southern Water requested guidance in cases where only a majority of customers accepted a trial and suggested an 'opt out' option for customers who strongly disagreed with the trial.
- United Utilities said greater flexibility around when trials could be introduced might give companies more flexibility to improve trials more quickly, based on previous results.
- Independent Water Networks said learning could be expanded if companies drew on relevant international experience (such as the severe shortages and restrictions in Cape Town 2016–2018).
- Waterwise suggested there should be a central organising body to avoid duplication of trials; NEA said identical trials should take place in more than one company's area, to improve the quality of results and South West Water said there could be merit in repeating trials across different areas or customer groups.
- NEA and Northumbrian Water supported the involvement of customers in the design of trials.
- Welsh Water said the main benefits would only be available if customers were metered, especially with smart meters, but this is not yet widespread. Northumbrian Water said the absence of smart metering may be a barrier to customers meaningfully changing their usage; Arqiva said it supported the rollout of smart metering.
- Welsh Water suggested that because water bills represent a relatively small part of a household's total budget, more progressive charges may not be able to incentivise customers to change their behaviour. Further, it suggested linking water consumption to affordability may harm low-income, high-occupancy households, as water use in general is linked to the number of occupiers of the property, rather than discretionary use such as watering gardens.
- Thames Water said small 'nudges' in behaviour may have less effect than large-scale interventions.
- Severn Trent suggested a new principle of 'proportionality' whereby only some principles would apply if the sample size is small, such as for larger NHH customers or small new developments; Everflow supported NHH customers being included in trials.
- Portsmouth Water said it would be useful to define in advance what information should be collected and shared and that Ofwat should have a role in encouraging this sharing.

Our view

We welcome the rich content of views and suggestions expressed by stakeholders in their consultation responses, as well as the widespread support for our high-level proposals. We confirm the good practice principles for charging trials set out in the consultation document and we provide more details on our next steps in this area in chapter 3. We make the following points in relation to some of the specific issues raised by stakeholders.

- Mandatory or voluntary customer participation in trials – it is for companies to decide how to implement the trials, but it is likely more meaningful results will be achieved with a widespread customer base. This is most readily achieved if, following effective customer engagement, companies sample the customers rather than customers self-selecting. It will be important for companies to engage with customers before and during the trial, and ensure they provide appropriate support, particularly to vulnerable customers.
- Protecting customers participating in trials – we explained in the previous section that our principles highlight the importance of identifying customers who may struggle to pay and offering support. The provision of support measures should be consistent with companies' approaches to supporting customers if the scheme was rolled out to all customers.
- Proportionality in applying the principles – the principles are important and ought to apply whatever the scale or scope of the trials. But we recognise that companies will own their trials and can design, implement and evaluate according to their customer engagement and evidence, and that the level of engagement and data gathering necessary to apply the principles may differ between trials. We also note that these principles are primarily for household trials, though it will often make sense for companies to include non-households in a trial. While the principles are also important for non-household trials, there are differences in that for English companies the billing relationship is between customers and retailers.
- We are not persuaded that a central body is required to provide oversight of trials; companies are responsible for running their trials and coordinating their efforts, with support from Ofwat and CCW. To help to support the maximising of learning between the companies, and with us and CCW, we have set up a file sharing space that will allow the sharing of appropriate research and analysis from charging trials.

1.6 Responses to Question 4

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

What we said

We set out how Ofwat could support companies introducing charging innovations, to help give customers confidence in the aims of the trials. We could use our communications, including a webpage, explaining the aims of companies' trials and answering some frequently asked questions ([FAQs](#)).

Respondents' views

Respondents welcomed Ofwat's aim to provide reassurance and support in communications. We highlight some specific comments from stakeholders below.

- CCW and Yorkshire Water noted early engagement with Ofwat and CCW is important; South East Water commented that Ofwat and CCW are well placed to provide reassurance.
- Waterwise suggested that Ofwat should incentivise smart metering.
- NEA recommended that Ofwat clarify how success should be measured; the process of roll-out; and the process of sharing findings.
- Thames Water suggested that Ofwat could produce a webpage and FAQs to explain the aims and that trials will not result in higher profits; and provide joint customer-facing communications with companies. South West Water also suggested it would be beneficial to have multi-branded communications and that CCW should be involved in that.
- Everflow suggested that Ofwat appoints a lead coordinator with expertise in running trials. All trial results should be published (reporting failures as well). South West Water suggested that Ofwat can also facilitate shared learnings.
- Wessex Water suggested that customers participating in trials are excluded from C-MeX.

Our view

Companies have ownership over their charges and will lead the development of new charging approaches. We have been encouraged that companies generally support sharing learning. We recognise we can play a role in supporting trials, including potentially through facilitating information sharing – we ran an industry workshop in November 2022 (see chapter 2 for more details) and we are keen to work with industry and CCW on messages and communications to help customers understand the objectives of charging trials that follow good practice principles.

We will refine the detail of the RFI design ahead of our PR24 final determination; it may be relevant to take account of volatility in customer water consumption, say, in the design. We will develop the detailed design of C-MeX, working with stakeholders, prior to our PR24 draft determinations.

While companies can innovate in their charges for unmeasured customers, we agree that innovation is enabled where customers have meters, particularly smart meters. We are supporting this through our price review PR24: as part of our PR24 final methodology we said that we expect all companies to consider smart meter installation as the standard meter installation type for residential and business customers; and that we will allow funding for smart meters where companies' business cases support this.

1.7 Responses to Question 5

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

What we said

We set out information on our duties, clarified that our charging rules support trials, and proposed changes to our charging rules to support affordability and better environmental outcomes.

Respondents' views

There was general agreement with the proposed changes to the charges scheme rules and the consultation responses did not identify regulatory barriers that prevent companies from developing more innovative charging structures. This is an overview of stakeholders' key messages in their responses to Question 5.

- Affinity Water interpreted the consultation as stating that trials must commence on 1 April every year and questioned why this should be the case. Similar points were raised from other companies – Thames Water and Yorkshire Water noted trials do not have to run for a full year and questioned if companies have to wait for the beginning of a charging year rather than starting a trial mid-year.
- South West Water and United Utilities suggested there should be more flexibility in timings, with United Utilities noting it may be possible to safely introduce some types of small-scale trial tariffs every 6 months.
- CCW said there could be greater clarity about how charging trials interact with revenue recovery and the RFI; Welsh Water, Southern Water, Northumbrian Water, South West Water and Severn Trent said Ofwat should provide some protection to companies that may breach the penalty thresholds on the RFI due to trials not providing expected levels of revenue.
- Severn Trent noted that companies conducted trials before charging rules were introduced and this was not held to be undue preference and agreed with us that no changes are needed to Licence Condition E (undue preference and undue discrimination).
- Anglian Water on the other hand suggested clarification may be needed on the application of Licence Condition E when new charging structures to incentivise water efficiency are implemented.
- Affinity Water noted trials can also result in different levels of service, such as more frequent meter readings or billing, enhanced communications or water efficiency information, which could be clarified in the rules.

- Independent Water Networks thought worse-off customers should be recompensed, otherwise they would be “unduly disadvantaged”.
- Waterwise suggested the wording of the general principle regarding “environmental protection” is insufficient and should be expanded to “environmental protection and enhancement”.
- South West Water suggested a number of potential clarifications or changes that we could make to the proposed charging principles, such as: Ofwat should clarify that rule 13 (“consistent approaches”) does not preclude trials; clarification on fairness versus affordability; general principles should say companies “should consider” rather than “should reflect” the proposed general charging principles.

Our view

We have addressed the main points raised by respondents related to the proposed changes to the charges scheme rules in our [December 2022 decision document on changes to the Charges Scheme Rules](#). We concluded that we would proceed with the amendments to the rules and these changes will come into effect from 1 April 2023 ([Charges Scheme Rules from April 2023](#)).

In our September 2022 consultation we stated that we did not consider there are regulatory barriers to companies trialling and implementing more innovative charging structures and we maintain this view following the review of the consultation responses.

We note the comments regarding interactions between implementing new charging approaches widely and other regulatory mechanisms. For example, it may be relevant to take account of volatility in customer water consumption, say, in our design of the RFI. We do not consider this to be a material issue prior to full implementation of new charges, because trials would ordinarily only affect a small proportion of customers.

We also remain of the view set out in our September 2022 consultation (chapter 5.4) that Licence Condition E does not prevent the implementation of more innovative charges and do not propose to revise the requirement. It will remain companies' responsibility to satisfy themselves that their charges, including those under trials, are compliant with condition E. We would expect our good practice principles to help companies in considering how trials can comply with this obligation.

We note suggested further changes to our charging rules. The statutory process is such that it has not been practical to introduce further changes to our charging rules in time for the 2023–24 charging year. We will keep these proposed changes under review as companies proceed with charging innovations.

We confirm the framework for the timing of trials in chapter 3.

2. Sector progress

In this chapter we highlight where two companies have innovated in their approach to charging. The first case study, by Affinity Water, sets out how the company is trialling a change in its charging structure to support affordability and target water efficiency. The second case study, by South West Water, illustrates that there are other initiatives that can be used to incentivise and reward customers, and that the absence of meters is not a barrier to innovation.

By these companies sharing their experiences and their findings, the sector is better placed to design and implement effective charging innovation.

In addition we report on a sector workshop which we held together with CCW in November 2022 directed at promoting good practice in the trialling of charging innovations.

2.1 Affinity Water charging innovation to support affordability

Affinity Water is proposing to trial a rising block tariff in the 2023-24 charging year. We welcome this and will continue to engage with Affinity Water as it implements the trial and evaluates the outputs.

The case study below provides Affinity Water's explanation and description of the charging trial.

Affinity Water charging trial to support affordability and fairness

Why are we introducing a tariff trial?

At Affinity Water we are keen to support the communities we serve and want to explore how changing the way we charge for water could help.

In November 2022, we attended the Ofwat workshop on affordability and charging trials where we presented our plans for a rising block tariff trial. Since then we have developed our plans further and subject to stakeholder consultation, aim to implement a 2-year tariff trial in 2023.

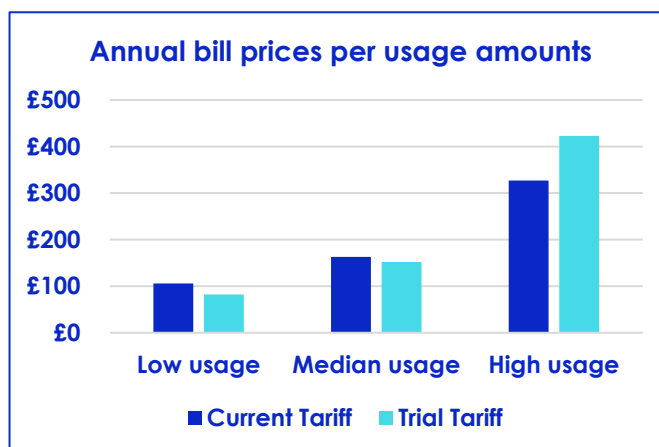
The primary aims of our trial are **affordability** and **fairness**. Our intention is to redistribute revenue from the highest water users to improve affordability for all customers, including a free initial block of water.

What is it and how will it work?

The trial tariff will be based on a **rising block** tariff structure. This means that a different price will apply to the first, middle and end blocks of consumption.

Customer research on the fairness of rising block tariff is encouraging. Research shows that just over half of customers think it would be fairer, with others needing reassurances.

By structuring the tariff in this way, we hope to see evidence that water bills become **more affordable for more of our customers**. Two out of three households will pay less if usage remains unchanged.



Low to average water users should see bill prices decrease under the new tariff, whereas high to very high users will likely see an increase.

Who will the trial apply to?



We will identify a small group of metered properties (c. 1500 households) within our supply area for our trial group, selected to ensure:

- Range of income distribution
- Range of low/high consumption
- High meter penetration

We will also identify a comparable group of properties in a similar location to act as our control group. We will measure the effects by comparison of the trial group and control group.

We intend that participation in the trial will be compulsory. However, we will exclude certain customers in vulnerable circumstances, customers with specific medical requirements and those already on social tariffs.



What do we want to achieve?

Our key objectives for the tariff trial are to obtain evidence on the effects of the new tariff on affordability and demand response.

We will find evidence of the tariff's effectiveness by gathering data before, during and after the trial and comparing the control and trial groups.

We will look at:

- Consumption
- Payment hardship
- Collection rates
- Default on bills
- Revenue collection costs
- Contact rates



We plan to publish anonymised trial data to inform tariff development across the industry.

We will consider the trial a success if the data shows us that more customers are paying less for their water, and if customer feedback indicates that the new tariff is fairer.



If our trial produces evidence of benefits to affordability and demand reduction, we will consider extending the new tariff to more customers in our area.

2.2 South West Water bill credit to alleviate water scarcity

South West Water launched its "Stop the Drop" scheme in November 2022 to incentivise customers to save water. The case study below provides South West Water's description of the household part of the campaign and incentive scheme.^{3 4}

Whilst this scheme involved a one-off payment and was not a change to the charges being applied, it is a good example of how a community scheme can incentivise all customers (measured and unmeasured) to reduce their consumption for a stated reward. SWW conducted a careful evaluation and its analysis provides key learnings and information around the potential benefit of tailoring different approaches.

South West Water – "Stop the Drop"

When the level of Colliford strategic reservoir fell to 15% full by October 2022 with continuing draw down, South West Water decided customer behavioural change, in conjunction with rainfall and engineering solutions, was required. It designed and launched a customer engagement campaign to influence water demand across Cornwall offering saving tips and free water saving devices. It announced its incentive scheme in November 2022. If customers helped Colliford Reservoir to reach 30% capacity by 31 December 2022, each household would be eligible for a bill credit of £30. This would equate to a total payment of ~£7.6m across 252,000 household customers.

The company communicated "Stop the Drop" through different channels, including social media and radio as well as a door knocking campaign in St Austell, Cornwall. The campaign was designed to have an immediate, 'public health' type feel, giving a sense of urgency. The call for action was clear – **small changes in behaviour can have a large-scale community impact**. There was positive coverage through local TV, radio and online radio and the scheme also received national press coverage.

The incentive scheme was complemented by promotion of free water saving devices, with orders increasing significantly as a result of the campaign – from 10,000 devices ordered in 2021 to 86,000 devices in 2022.

Outcomes – behavioural change

South West Water assessed the impact of the incentive on per household consumption using a combination of primary and secondary meter data:

³ The non-household part of the scheme continued over a longer time period and had different characteristics which are of less relevance to our work supporting household customers, so we do not highlight that part of the campaign in this case study.

⁴ South West Water (2022), [South West Water letter for supporting customers through the cost-of-living pressures](#)

- Primary source – Individual Household Monitors (IHM), a subset of properties where consumption data is recorded for every litre used compared across Water Resource Zones (WRZ);
- Colliford Secondary line assurance – District Meter Areas (DMA) measuring several thousand properties and Distribution Input (DI) calculated using outlet meters at water treatment works.

The primary and secondary data sets provided evidence of sustained consumption reductions in the Colliford area following the launch of the incentive:

- There has been on average a 3% reduction in PHC in Colliford DI
- Weekly PHC was at its lowest (before the freeze/thaw event) in Colliford since Covid (2019)
- Measured, unmeasured and capped social tariff customers all responded to the financial incentive – with the largest reductions being observed for unmeasured and capped social tariff customers. These reductions were relative to PHC prior to the incentive with measured properties using significantly less water. This insight was further supported through the doorstep engagement campaign where a large number of measured customers considered themselves to be waterwise having already made behavioural changes and/ or fitted devices with the primary driver for this being direct link between usage and charging as well as there being environmental benefits.

2.3 November workshop on charging trials and innovation

On 25 November 2022 we met with companies and CCW to explore how we can work together to deliver better outcomes for customers, communities and the environment through charging innovation. The workshop was a mix of presentations and discussion among the whole group and smaller breakout sessions. In this chapter we note comments made by workshop participants. To encourage an open dialogue, we agreed not to attribute comments to specific attendees.

The workshop began with **opening remarks** from Ofwat and CCW. They highlighted the importance of reducing personal water consumption and affordability as key challenges for the industry over the coming years. Ofwat and CCW encouraged companies to adopt an innovative mindset to explore how the structure of charges can play a role in helping to address these challenges. They reminded companies that they are at different stages in their development of charging trials, and so sharing their thinking would be vital. They concluded that companies should not be afraid of the risk of failure – inevitably some trials will be more successful than others.

We then presented a **summary of responses** to our September 2022 consultation on charging innovation to support affordability.⁵ We noted that it was encouraging to see the number of companies thinking about innovative tariffs, but that there was presently little sign of innovations taking place. This summary was followed by an open dialogue around the responses received, including conversation on rising block tariffs and past experience with trialling seasonal tariffs in England, Ofwat's role in facilitating trials, and opportunities to also reduce non-household consumption.

Following that discussion, we provided **guidance on what good practice looks like** when it comes to trial design and evaluation. This covered the importance of including, from the outset, a plan for the evaluation of a pilot – including what exactly will be measured and how. When setting up a pilot, companies should consider who is included; the timing of the pilot (duration and start / stop times); how to make the pilot as close to real circumstances as possible; the methods that can be used to measure impact, including the use of a control group; when to measure impact and who has been affected.

This was followed by the first of two breakout sessions. The **first breakout session** looked at how to get acceptance from customers, and getting the most out of designing and evaluating trials. On customer acceptance, a key issue identified was addressing the culture around water in England and Wales, where there is a more relaxed view on water scarcity compared with countries where supply and demand balance challenges have historically been more significant. Effective communication of trials was also viewed as very important, including making use of different media to ensure messaging reaches diverse groups of customers. Participants also identified the value in changing the messaging depending on the purpose of the trial, for example affordability or demand management. It was noted that where customers are unmeasured or on standard (that is, not smart) meters, the use of a collective goal to reduce demand could be effective – whereby all households in an area could receive a reward for achieving a specific collective goal.

On the design and evaluation of trials, it was put forward that a key determinant for a successful trial is the availability of accurate data, particularly on household occupancy. Linked to this was the caution that without accurate occupancy data, tariff bands might risk penalising households with high occupancy and lower incomes (though WaterSure provides some protection for this). There was also merit identified in reviewing customers' use of water and their views to inform the narrative around new charging trials, particularly seasonal trials. For seasonal charges it was also noted that it is important to communicate clearly to customers why they vary. It was also acknowledged that any trial would have winners as well as losers – some customers may see reductions in their bills, but others may experience bill increases relative to the current charging structure.

⁵ [20220922_Consultation_on_charging_innovation_to_support_affordability.pdf](https://www.ofwat.gov.uk/consult/20220922_Consultation_on_charging_innovation_to_support_affordability.pdf) (ofwat.gov.uk).

One interesting approach to running trials was suggested, based on the collaborative model used to develop Regional Water Resources plans. Several companies could work together to design, implement and evaluate the same (or similar) trial in each of their own areas.

The **second breakout session** discussed the key risks and challenges to innovating and what collectively needs to be done to facilitate this innovation. An important takeaway was that great care will need to be taken for these particular trials, given the potential for some customers to be adversely affected. Smart metering was identified as a key enabler for charging innovation, with Ofwat potentially having a role to play in encouraging increased compulsory metering. Additionally, it was noted that Ofwat could think about what other aspects of the regulatory framework could be amended to facilitate innovation – for example customers participating in trials could be excluded from C-Mex to avoid skewing the results for this incentive measure as a result of a company trialling to innovate its charging approach.

It was recognised in breakout session 2 that there could be significant reputational risks with introducing new charging structures and risk of negative reaction from customers and media. In order to mitigate those risks, it would be important to communicate clearly the objectives of the trial, companies could provide consistent messaging and there should be appropriate process and understanding with Ofwat before trials begin.

As well as the breakout sessions there were presentations on: Rising Block Tariffs from Affinity Water; supporting customers through change by South West Water and; insights on household usage distribution by Thames Water. A key theme emerging from these presentations was the need to balance the potential affordability benefits of innovative charging structures with careful consideration around those who may resultingly see their bills increase. Additionally, it was evident that innovative charging trials are one answer to supporting affordability but should be deployed with other support measures.

Following this workshop, Ofwat and CCW took actions to set up a webpage and file sharing space to support company collaboration and discuss how to coordinate our efforts supporting company charging innovation. We also encouraged companies to continue progression towards charging innovation and agreed to meet with companies in spring 2023.

3. Conclusions and next steps

In this chapter we conclude on the consultation. In response to feedback, we highlight further pertinent aspects of the legal and regulatory framework. We conclude on our good practice principles for charging trials; we highlight CCW's pivotal role in this work; and we conclude on our role, including establishing a web page to promote understanding of this work. Finally, we note the importance of companies' PR24 business plans, which they submit in October 2023, as a key opportunity to demonstrate ambition in this area.

3.1 Legal and regulatory framework

We have now updated our Charges Scheme Rules from April 2023 to make it clear that undertaking trials of new charging approaches does not conflict with rule 12 that consistent principles and approaches must be applied to the calculation of charges for different classes of customer.

In our consultation we also explained that how this interacts with condition E of companies' licences. In particular, where a trial is robustly designed so as to trial charges aimed at achieving one or more of the aims of supporting affordability or environmental protection, it is our view that although customers participating in the trial would be paying different charges from those imposed upon otherwise similar customers, there would not be any undue discrimination or preference.

3.1.1 Timing of charging trials – additional clarifications

A number of companies raised questions related to the timing of trials – whether charging trials need to be over a full charging year and whether they need to commence from the beginning of a charging year (1 April).

The relevant legal requirement is in the Water Industry Act 1991 (WIA91) – s142 provides that companies can only impose charges on household customers in accordance with their charges scheme and s143 requires that the charges schemes must fix the charges and must have effect in relation to a specified period of 12 months.

From this, we confirm that charges for any trial, and the circumstances in which it may take place and be terminated, need to be set out in companies' charges schemes. Under rule 9 of our charges scheme rules, charges schemes must be published no later than 1 February prior to the charging year.

While the charges imposed under trials are also subject to our charging rules, the rules allow for flexibility around some aspects of charging trials. For example:

- Companies can set out the charges which will be imposed if a trial is undertaken and customers are selected to participate, without committing to running the trial at the time of issuing the charges scheme.
- Companies can commence (and stop) charging trials at any time during the relevant charging year in circumstances set out in their charges scheme – for example if the company has evidence that some the trial is resulting in adverse impacts for some customers.
- Trials do not have to be over a 12-month period – companies can decide what time period is appropriate for their trials, which can be part-year, a full year or longer. Companies need to determine what duration would best serve the purposes of their trial.

3.2 Good practice principles for charging trials

We conclude that we will support charging trials that are consistent with good practice principles. We will support the trials through communication and through facilitating shared learning. We confirm the good practice principles, as set out in Figure 2.

Figure 2: Good practice principles for charging trials



We established these principles primarily to apply to trials with household customers. We recognise that there are differences for business customers in England, which are billed by retailers rather than water companies directly.

We have published the good practice principles on our website, and will periodically review and update them, through engagement with CCW and the sector, in the light of new developments and learning from companies' trials.

3.3 Role of CCW

We welcome the support and drive that CCW is showing to the sector's work on charging innovation, including in its forward work programme 2023–24. CCW is playing a crucial role in communicating the importance and potential of charging innovation, which contributes to the key CCW programmes of affordability and vulnerability; and of people and the environment. CCW's commitment to deliver its work using positive energy and innovative spirit is a great complement to the challenges that companies will face in developing charging innovations. Companies' early and ongoing engagement and consultation with CCW is an essential part of this initiative.

3.4 Role of Ofwat

We have established a new webpage to communicate information about charging trials to customers and other stakeholders. Our aim is to help give customers, communities and wider stakeholders confidence regarding the purpose and potential benefits of the trials. For example we can reassure customers that trials are not a means by which water companies can increase their revenue, because we regulate company revenue through our price controls.

One of our principles of good practice charging trials is maximising learning. To facilitate this, we have created a space for charging research that CCW and water companies will have access to. The aim of this file sharing space is to provide water companies with a place where they can upload and share information such as trial designs, challenges and opportunities around implementation, evaluation of results and analysis of customer feedback. This can help the sector gain wider benefits from such trials. This space is not publicly accessible. However, we will look to provide links to relevant published documents on the charging trials page of our website.

We welcome ongoing engagement with companies as they develop charging innovations. We also have wider involvement in the charging trials through our charging rules, our duties and powers to protect customers, and through PR24 as set out below.

3.5 Charging innovation in companies' PR24 business plans

Key next steps for all companies are to set out their plans for any charging innovation in their PR24 business plans, which they submit to us in October 2023, and in their 2023–24 charges schemes.

In PR24 we will encourage companies to submit quality and ambitious business plans through a combination of reputational, financial and procedural incentives. Companies' ambition must take account of customers' affordability concerns. Delivering charging

innovation could be one of the measures in companies' business plans that demonstrates ambition in [enhancing affordability](#).⁶

As part of PR24 business plans, companies will submit commentary and a [supplementary table](#) (SUP15) on affordability support measures for residential customers. The table includes questions regarding innovative charges that could result in lower bills for customers struggling to pay their bills. We held a workshop with water companies and CCW on 2 March 2023 to discuss the requirements. We will revise the table following comments and suggestions from companies and CCW before we publish the final version in May 2023.

We are clear that companies should not wait until PR24 to act on affordability challenges. To deliver charging innovation, we anticipate that companies will publish charges to be used in charging trials as part of their 2024-25 charges schemes.

⁶ Ofwat (2022), Creating tomorrow together – Our final methodology for PR24, Chapter 11.

**Ofwat (The Water Services Regulation Authority)
is a non-ministerial government department.
We regulate the water sector in England and Wales.**

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