

January 2024

# Summary of water companies' published plans for household charging trials

## About this document

In 2022 we called on water companies to trial new approaches to charging structures for household customers that could help support affordability, as well as potentially contribute to other goals such as greater water efficiency.

In this document we summarise companies' proposals for household charging trials as set out in their 2024 price review (PR24) business plans. This allows customers, companies and other stakeholders to review and compare companies' plans to use charging trials to support households, in terms of both affordability and sustainability.

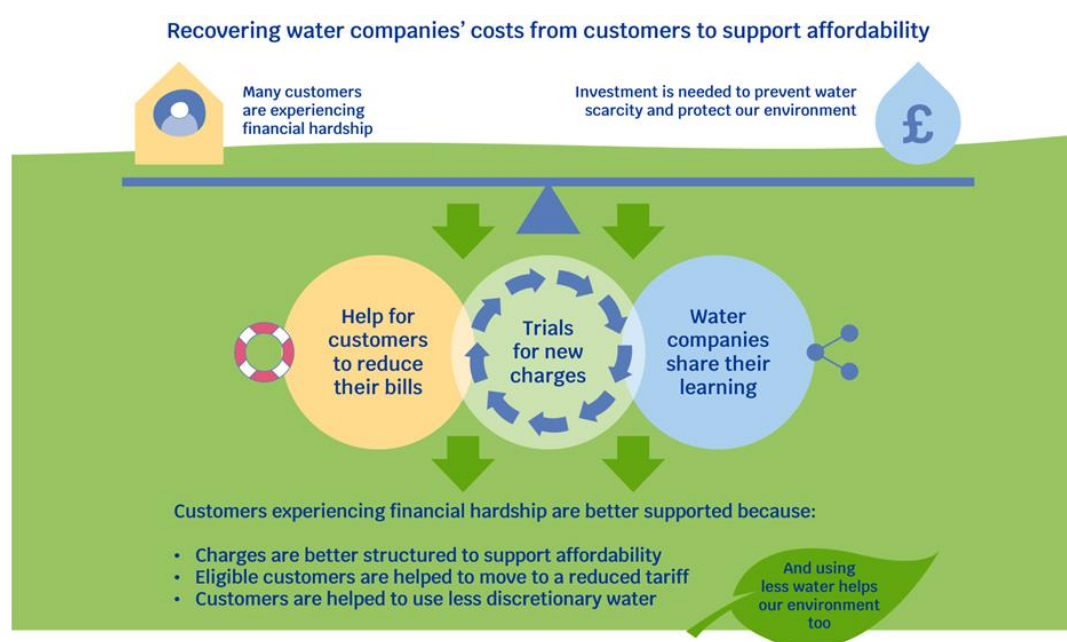
This document is for information only. We do not offer observations or critiques of any company's plans because we are assessing plans separately as part of PR24 – our quality and ambition assessments (QAA): we will publish the results of the QAA as part of our draft determinations in May / June 2024.

# 1. Charging trials – objectives

Cost of living pressures put affordability into sharp focus. In 2022 we called on water companies to trial new approaches to charging structures for household customers that could help support affordability, as well as potentially contribute to other goals such as greater water efficiency.

We published a [consultation in September 2022](#) to explore how companies might introduce new charging structures, undertaking high quality trials where customers are supported and companies' learning is shared. We said that this could include seasonal charging to help lower water bills in the winter. Similarly, customers who use a lot of water, for example those with swimming pools, hot tubs or large scale sprinkler systems, could be charged a premium for very high use, particularly at times when water is scarce.

**Figure 1: Charges to support affordability**



We made changes to our charging rules, following the September 2022 consultation,<sup>1</sup> to strengthen the role of affordability and other key charging principles, and clarify our position on charging trials to facilitate companies' work in this area.

## 1.1 Good practice principles for charging principles

We concluded in [March 2023](#) that we will support charging trials that are consistent with good practice principles. We will support the trials through communication and through

<sup>1</sup> [www.ofwat.gov.uk/consultation/consultation-on-charging-innovation-to-support-affordability/](http://www.ofwat.gov.uk/consultation/consultation-on-charging-innovation-to-support-affordability/).

facilitating shared learning. We confirmed the good practice principles we expect companies to follow, 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 certain business customers in England and Wales, which are billed by retailers rather than water companies directly. We will periodically review and update them, through engagement with CCW and the sector, in the light of new developments and learning from companies' trials.

To support the charging trials, including the principle to maximise learning, we have established a [webpage](#), with information about the trials

## 1.2 Current developments

We are pleased that Affinity Water began a trial in October 2023. Its trial is based on a rising block tariff structure, meaning that lower users of water pay less per unit and higher users of water pay more. Affinity Water estimates that at least two out of three households in the trial will pay less for drinking water if their usage stays the same, supporting affordability objectives. Affinity Water has explained to us how it is complying with our principles for good practice charging trials. We look forward to learning how customers react to the trial when Affinity Water begins to share its data and analysis.

We also welcome the plans by other companies to begin trials in 2024–25. We have already discussed plans with some companies. We say more about companies' plans for trials in section 2.

## 2. Information in companies' PR24 business plans

We see charging innovation as an important dimension in supporting customer affordability. In PR24 we have encouraged companies to submit quality and ambitious business plans through a combination of reputational, financial and procedural incentives. In our [PR24 final methodology \(Chapter 11\)](#) we set out that companies' ambitions 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.

Companies have provided information about trialling new types of charging structures in their PR24 business plans. We summarise those plans in this section and provide more details in Appendix 1. This information is based on what companies have said in their business plans, but they may choose different charges due to operational or other considerations. We are not commenting on these plans in this document because we are assessing plans separately as part of PR24 – our quality and ambition assessments (QAA): we will publish the results of the QAA as part of our draft determinations in May / June 2024.

### 2.1 Plans for trials in 2024–25

Several companies have said in their PR24 business plan submissions that they intend to run trials in 2024–25. These are Anglian Water, Northumbrian Water, South West Water, Southern Water, United Utilities, Affinity Water, Portsmouth Water and South Staffs Water.

We set out below some examples of information on these trials that companies have included in their published business plans (see Appendix 1 for full details). Companies will confirm or amend their proposals for trials when they publish their charges schemes, by 1 February 2024.

- Seasonal and peak demand charges: Anglian Water is planning to trial seasonal tariffs and its main objective is to incentivise behavioural change and encourage customers to reduce discretionary water usage. The company explains that it will focus on supporting customers struggling to pay through its social tariff offering.

South West Water's plans include peak summer demand tariffs and charging properties that are not occupied all year round in a more cost reflective way for surface water drainage.

Southern Water is planning to trial a seasonal tariff. It is also planning to reform some of its charges for non-household customers.

- Rising block tariffs (**RBT**): Affinity Water has started an RBT trial in October 2023. The company is planning to run trials for four more charging structures over the PR24 price control period (April 2025 to March 2030).

Other companies that are planning to run RBT trials in 2024-25 are Southern Water (in addition to its seasonal tariff trial) and United Utilities.

- Other types of trials: There are also plans for other types of charges to be trialled next year. For example, South Staffs Water plans to trial an "essential use tariff" for customers who are not eligible for social tariffs but are struggling to pay their bills. Eligible customers will be charged the social tariff rate for essential water use and standard rate for non-essential use, which is over 110 litres per person per day. The tariff will take into account the number of occupants in each property when calculating essential use volumes. Northumbrian Water has said it plans a "water-saving tariff" which rewards customers for reducing consumption.

## 2.2 Plans for trials during 2025 to 2030

All companies expect to trial new charging structures by 2030 and some of them plan a wider rollout if the trials are successful.

These are some examples that companies have set out in their published business plans:

- Thames Water: It is planning to trial an RBT in the first year of AMP8 and a wider rollout from 2027 if the trial is successful.

The RBT will consist of three blocks – the charge for the first 50m<sup>3</sup> consumed will be half the current rate. Consumption in the middle block will be charged at unit rates similar to the current rates. The third block will target very large consumption (above 685 litres per day) with the unit charge set at twice the current rate. Thames Water estimates that the excessive usage rate will apply to about 8% of metered household customers and it will use the revenue from excessive consumption to cross-subsidise social tariffs.

- Severn Trent: It is proposing to trial an RBT. The trial will run over 5 years and include 3,000 customers per year who are on smart meters. The trial will test the merits of low unit rates for essential water use with higher unit rates for discretionary use.
- Welsh Water: It may introduce an RBT in 2026-27, with a view to assessing options for a wider rollout as part of its plans for 2030-35. The trial would be designed with the objective of establishing the impact of this tariff structure on usage for 'light' and 'heavy' water users.

Other companies including Hafren Dyfrdwy, Portsmouth Water, South East Water, SES Water, Wessex Water and Yorkshire Water also plan to run trials during 2025 to 2030.

## A1 Charging trials in PR24 business plans – summary

We have taken the text below directly from companies' PR24 business plans.

Company	Charging trials in business plans
Trials in 2024/25	
<p><b>Anglian Water</b></p>	<p><a href="#">PR24 Business plan</a>, p. 45:                      "We are embarking on a partnership with the Centre for Competition Policy at the University of East Anglia (CCP) to develop a two-year programme to trial a first round of test-tariffs see 6 from 1 April 2024, which will allow us to understand from the three variables of structure, price and messaging, how to create most traction with customers to allow a scalable and durable innovative tariff policy to be implemented during AMP8. The intention is to pursue a rolling programme of tariff trials in order to find the most effective and meaningful tariff for customers.</p> <p>Our customers have told us that they would support a tiered system (increased cost for beyond essential usage) as it would be effective in saving water as people would be more likely to monitor and reduce their water usage in an effort to keep costs down."</p> <p>P. 46:                      "We operate in a water scarce region. Whilst innovative tariffs are those aimed both at supporting customers struggling to pay or incentivising customers to reduce discretionary demand for water, our focus is on water efficiency, helping customers to value water more, use less, and so reduce the need for future bill increases, as well as reducing their charges as households today. As set out above, the generosity of our customers demonstrated in the recent consultation on support for a maximum contribution of £24 for our social tariff LITE means that we can focus support for customers with affordability issues through the LITE tariff."</p>
<p><b>Northumbrian Water</b></p>	<p>PR24 Business plan, <a href="#">Appendix 1</a>, p. 57:                      "We are also keen to trial new tariffs and have engaged with the recent Ofwat consultation and workshops. For example, we hope to trial a water-saving tariff alongside our smart metering programme next year to reward customers who reduce their consumption. Tariff innovation will be crucial in PR24 plans and our longer-term approach to affordability. However, this would offer limited support, so our immediate focus is on the help we can provide today."</p> <p>PR24 Business plan, <a href="#">Appendix 1</a>, p. 58:                      "Innovative tariff options we will explore by 2030 include:</p> <ul style="list-style-type: none"> <li>• Supporting efficient water usage – Water pricing is an important tool for improving water efficiency and enhancing social equity. Increasing block tariffs are by far the most common charges for water services and they are used in countries where water has been historically scarce such as Spain and the Middle East and key questions we will explore through customer research and trials include developing our understanding of the optimum number of blocks, the volume of water use associated with each block, and the prices to be charged for water use within these blocks.</li> <li>• Support for higher occupancy households – who may be more at susceptible to the impacts of our metering programme and at higher risk of entering water poverty. This may involve offering to cap household bills to the average bill of a</li> </ul>



	<p>four-person household where individual usage is within our target 110 per capita consumption level. We will explore the potential to work with the DWP to share and maintain occupancy data for the purposes of reducing the complexity and overheads associated with operating a dynamic and bespoke scheme of this nature.</p> <ul style="list-style-type: none"> <li>• Incentivising reduced demand at peak times - The continued rollout of smart meter technology will provide applications to identify and reward customers for cutting down on their water usage at certain periods or times of day. This could help customers save money off their bills by helping to balance peaks and troughs in water demand during periods of increased usage or warmer weather. This has been successfully used in the energy sector with a quarter of eligible customers taking part to reduce their consumption.</li> <li>• Capping bills for customers with medical requirements - We are working in partnership with Scope, the disability equality charity, to understand opportunities to support customers on low incomes, but not in receipt of benefits, who need to use more water for medical reasons, to develop a bespoke bill cap that encourages efficient water use without penalising for water used for medical purposes. This is similar to WaterSure, but could expand eligibility.</li> <li>• Considering different bill structures for non-households – we will need to set charges to encourage businesses to use less water, particularly in areas where pressures on water demand (and so new costs to supply water) comes from growth in non-households. We will explore ways to do this through supporting efficient water usage, in addition to our enhancement case for increased NHH water efficiency and metering (NES36)."</li> </ul>
<p><b>South West Water</b></p>	<p>PR24 Business plan, <a href="#">Engagement and Affordability</a>, p.62:</p> <p>"We are looking at how we can use charges to better reflect the costs and investment we are incurring so that bills are fair for customers. We will run pilot schemes to understand what works well and what customers consider to be fair. During these pilots, we will ask all customers to consider:</p> <ul style="list-style-type: none"> <li>• Environmental Tariffs – which reflect the higher cost of peak summer demand and encourage customers to use less water in the summer months, but provide discounts over the winter when there is less pressure on water resources.</li> <li>• Rebalancing of charges – to reflect some of the unique challenges we face as a region, and ensure the costs are spread fairly across the right customers; for example, those associated with increasing waste water investment is reflected fairly across those who use surface water drainage and waste water services, and that the costs of investing in additional capacity in the summer months is reflected in properties which may not be occupied all year round."</li> </ul>
<p><b>Southern Water</b></p>	<p>PR24 Business plan, <a href="#">Chapter SRN08</a>, P. 172:</p> <p>"8.3.3. Using tariff innovation and fairer charging structures</p> <ul style="list-style-type: none"> <li>• Without changing our charging structure, we expect our average dual-service bills to increase by 64% in real terms (and 85% in nominal terms) between 2025 and 2030. Our Customers and Communities Challenge Group recommended using tariffs as an innovative way to offset some of the impact of bill increases. Our regulators encourage collaboration and knowledge sharing across the industry and have removed barriers to trialling new charges. We have used this approach to develop three tariff changes: <ul style="list-style-type: none"> <li>○ Introducing more cost-reflective surface water drainage charges, which could reduce average wastewater bills by 7%</li> <li>○ Removing discounts for large users, reducing household water bills by 1%</li> <li>○ Introducing seasonal or rising block tariffs which could reduce average bills by 10% when fully implemented.</li> </ul> </li> </ul> <p>"8.3.3.3. Water usage tariffs: seasonal tariffs and rising block tariffs</p> <p>We expect these to incentivise customers to become more efficient – supported by our smart metering programme and Target 100 campaign. We plan to start trialling new tariffs in 2024–25 to understand the impact on customers' bills and water use.</p>

	<p>This will inform the detailed design of an innovative tariff to be rolled out in 2027–28 to help deliver our affordability and sustainability goals."</p>
<p><b>United Utilities</b></p>	<p>PR24 Business plan, <a href="#">Chapter UUW04</a>, P. 91:  "4.6.3 Tariff innovation in AMP8  We propose to trial and then, if successful, widely roll-out a range of new tariff reforms. Beginning in AMP7 we are systematically testing and iteratively developing a new package of household tariffs. These new tariffs seek to support water bill affordability, whilst also incentivising sustainable customer behaviour.</p> <p>In 2024/25 we will be trialling a new rising block tariff. These tariffs can offer strong water efficiency incentives for metered household customers. Whilst such tariffs have been tried in the past we anticipate that smart meters may offer a route to overcome some of the barriers that these types of tariffs have traditionally faced.</p> <p>We are also reviewing our existing standing charges for metered customers. Standing charges for measured customers can have the unintended consequence of limiting customers' ability to reduce charges through improved water efficiency. We are considering reducing standing charges to help customers maximise the financial benefits of water saving. However in doing so we will consider, and seek to mitigate, impacts on high occupancy, low income homes.</p> <p>In a similar vein we will also trial a new Assessed Volume Charge for pensioners. AVCs are needed where an older property cannot have a meter fitted due to pre-existing plumbing arrangements. They have traditionally been based on average customer consumption rates. Pensioners are more likely to be single occupiers, and more likely to be on a lower income than working age households. An assessed charge specifically for this customer group may help reduce tariffs and be more reflective of actual usage pattern."</p>
<p><b>Affinity Water</b></p>	<p><a href="#">PR24 Business plan</a>, P.9:  "In 2023 we are trialling 'WaterSave', a rising block tariff with 1,500 customers in the Stevenage area, to gain new evidence of the effects of such tariffs on affordability and water use behaviour, and we plan four further trials between 2025 and 2030."</p> <p>See also figure 5.2, P. 62:</p> <div data-bbox="403 1339 1321 1668" style="border: 1px solid #ccc; padding: 10px;"> <p><b>Green tariff</b>  Customers would pay a voluntary additional amount which would be used for social and environmental schemes not already included in price limits.</p> <p><b>Demand reduction auction</b>  Business customers would bid a price to be paid to reduce demand at certain times where demand is high.</p> <p><b>Demand reduction competition</b>  Customers would compete to reduce demand and receive either reward payments, or entry into a prize draw for a substantial prize.</p> <p><b>Seasonal tariff</b>  Using smart meters would enable us to charge a higher price during unusually hot weather and test if demand is reduced.</p> </div> <p style="text-align: center; font-size: small;">Figure 5.2 Our future tariff plans</p>
<p><b>South Staffordshire Water</b></p>	<p><a href="#">PR24 Business plan</a>, P. 53:  "To enhance our affordability strategy, we will trial an essential use discount for customers who are above the income threshold for our Assure social tariff but who are still struggling to pay their water bills.</p> <p>Recent data from Citizens' Advice shows that 18% of customers it has supported who are experiencing water and sewerage bill debt had household incomes of between £18,000 and £24,000 a year. These customers are often squeezed the most as they are not eligible for other forms of financial support. This is why we have chosen to target this group of customers for the trial.</p>

	<p>The tariff will offer discounts for water use up to a bespoke threshold of household consumption based on the number of occupants, with standard charges applying for discretionary use above this level. Customers on the trial will also be supported with additional water efficiency advice and devices, so they can make further savings on their water bills through behavioural changes. We have engaged with customers ahead of the trial to help co-develop and test the level of support for our approach. We illustrate our approach in figure 3 below."</p>
Trials in 2025-2030	
<b>Welsh Water</b>	<p><a href="#">PR 24 Business plan</a>, Document WSH03, P. 197:                  "We estimate that by 2026-27 we may be in a position to arrange for a trial of a rising block tariff, with a view to assessing options for a wider rollout as part of our PR29 plans for 2030-35. The trial would be designed with the objective of establishing the impact of this tariff structure on usage for 'light' and 'heavy' water users, and to identify what mitigations might be needed to avoid unintended consequences."</p>
<b>Hafren Dyfrdwy</b>	<p><a href="#">PR24 Business plan</a>, P. 264:                  "Getting a tariff trial underway in the latter part of the AMP. Given our small size, we are conscious that acting as a first mover could prove riskier or could struggle to achieve a sufficient scale for providing meaningful results. Instead, our plan is to use our small size to our advantage and act as a fast-follower of successful trials elsewhere in the sector and test their suitability on our patch."</p>
<b>Severn Trent</b>	<p>PR24 Business plan, <a href="#">Annex 3B</a>, P.53:                  "We are proposing a rising block tariff (RBT) trial of 15,000 customers (3,000 customers per year) in AMP8 who are on smart meters. ...The trial will test the merits of low unit rates for essential water use with higher unit rates for discretionary use. We are excited to test whether and how an RBT will improve water efficiency and generate bill savings for customers. "</p>
<b>Thames Water</b>	<p>PR24 Business plan, <a href="#">Appendix TMS07</a>, P.6:                  "We will increase the level of cross subsidy funding available through an innovative and progressive rising block tariff, in addition to the current cross subsidy framework. This rising block tariff will reduce bills on average by 9% for three quarters of our households while creating incentives to be more efficient with water consumption. Protections will be in place for households with essential high consumption needs, while those who can choose to use excessive amounts of water will pay more. This 'excessive use' tariff will fund an expanded social tariff scheme, creating an equivalent cross subsidy of £37 per household, but the increase from the current level of £23 per household collected in a progressive fashion."</p> <p>P.43:                  "Therefore we will trial an innovative tariff in year one of AMP8, with plans for wider roll-out from 2027. We believe there is a considerable opportunity to use new charging approaches to extend the reach of social tariffs while incentivising more efficient consumption. Our initial proposal for three tiers of rising block tariff is based on a need to create incentives for efficient water usage across the range of customer consumption. Only having an 'excessive use' tier would not create an incentive for efficient use at lower levels of consumption. Having more than three tiers would create unnecessary complexity. The perfect solution would be an occupancy level-based tariff, but the data to do this is not yet available."</p> <p>P. 44:                  "We will trial a three-tier rising block tariff with 10,000 of our existing smart metered customers, moving beyond our current fixed unit rate tariff. All else equal, over 75% of our customers – those with consumption less than 441 litres per day (average household consumption is 343 litres per day) - would benefit from lower bills.... This is because of almost halving unit charges for the first 50m<sup>3</sup> consumed</p>

	<p>annually. Unit charges above that would be broadly in line with current rates. Only consumption above 685 litres per day, a level twice that of an average metered household, would be charged at the 'excessive' rate. This rate is intended to reach only those with genuinely excessive consumption who are able to pay, with protections described below for those that need to use this level of water. This 'excessive' rate will be set at more than twice the current fixed unit rate."</p>
<b>Wessex Water</b>	<p><a href="#">PR24 Business plan</a>, P.151:          "Our plan includes a smart metering roll out that will reach 40% penetration of smart meters for both households and non-households by 2030. This will enable us to do more in terms of tariff trials between 2025-30."</p>
<b>Yorkshire Water</b>	<p><a href="#">PR24 Business plan</a>, p. 47:          "In addition, we are committed to delivering a charging trial in the 2025-30 regulatory period, to further support affordability – the rollout of our smart meter programme will in the longer term create the opportunity for more innovative tariff structures, aiding affordability. Such varied help for customers also underpins our long-term strategic outcome: 'bills everyone can afford'."</p>
<b>Portsmouth Water</b>	<p>PR24 Business plan, <a href="#">Appendix PRT11</a>, P. 43:          "We will be adaptive to our customers' needs when developing tariffs, but we will be focused on modelling and trialling the following types of tariffs to support our customers:</p> <ul style="list-style-type: none"> <li>• Supporting disabled customers – Research and cross-sector benchmarking has shown that our disabled customers have been impacted far more significantly in the recent cost of living impacts than typical customers. We will design and test tariffs that reflect a higher essential use for this customer segment which reflects they should not be impacted harder due to their disability.</li> <li>• Dynamic Flexible Tariffs – Based on our relationship with the Kraken Technologies, we will look to use linking spot tariffs linked to energy tariffs where customers with both water and energy smart meters will be able to save money dynamically though reducing usage over specific spot times.</li> <li>• Alternative Social Tariff – We will focus on providing discounts to customers who are eligible for Social Tariff but trial tariffs that provide incentives for customers who reduce their usage despite capped discounts."</li> </ul>
<b>South East Water</b>	<p>PR24 Business plan, <a href="#">Appendix SEW87</a>, P. 85:          "In addition to our social tariffs, and the other financial support tariffs we will be retaining, the role out of smart metering will enable us to introduce an innovative range of tariffs based on accurate consumption information. Whilst these tariffs may be predominantly used for customers who do not have affordability or vulnerability challenges, we will ensure we evolve our understanding of how to best support their financial and water consumption needs."</p>
<b>SES Water</b>	<p>PR24 Business plan, <a href="#">Section 9</a>, P. 9:          "35. We will also help customers reduce their bills by:</p> <ul style="list-style-type: none"> <li>• Installing smart meters and providing detailed consumption data and targeted advice to help customers identify leaks and become more water efficient;</li> <li>• Using our smart meter data and cross-sector learning to trial and implement more progressive tariffs from 2025, improving affordability and fairness for all; and</li> <li>• Reducing the number of void properties, which are occupied but not billed, to no more than 2.2% by 2025 and by maintaining accurate billing data we will keep levels at no more than 1.5% between 2025 and 2030, which is amongst the best in the sector.</li> </ul>

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