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Llywodraeth Cymru  
Welsh Government

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## Consultation - summary of response

# Charging guidance to Ofwat (the economic regulator of the water sector in England and Wales)

February 2016

## **Overview**

This document provides a summary of the responses received by the Welsh Government to the consultation on Charging Guidance to Ofwat (the economic regulator of the water sector in England and Wales).

## **Purpose of the consultation**

The Water Act 2014 introduced new powers for Welsh Ministers to produce Charging Guidance for Ofwat, reflecting the Welsh Government's policy, which would replace the existing Charging Guidance to Ofwat which the UK Government produced in 1999.

The consultation was issued under Section 144ZE of the Water Industry Act 1991 as inserted by Section 38 of the Water Act 2014: General guidance on charges.

Section 144ZE of the Water Industry Act 1991 provides powers for the Welsh Ministers to give guidance to Ofwat, relating to the rules on the charges that may be imposed by relevant undertakers in areas wholly or mainly in Wales. The draft Guidance covers principles which specifically apply to:

- Rules under section 66E in relation to charges which water undertakers impose on water supply licensees and;
- Rules under Section 143B in relation to the charges schemes published by water and sewerage undertakers.

To assist with the development of this guidance we have sought advice, prior to public consultation, from relevant water and sewerage undertakers, Ofwat and from the Consumer Council for Water.

## **Consultation period and distribution**

The consultation ran between 24 August and 11 October 2015. It was published on the Welsh Government website and a link was sent to: Defra, water and sewerage undertakers, the industry regulators and the Consumer Council for Water.

## Summary of Responses

We received five responses to the consultation. The following organisations responded to the consultation:

- The Institute of Civil Engineers
- Severn Trent Water
- Dee Valley Water
- Dŵr Cymru Welsh Water
- The Consumer Council for Water

The responses received were generally supportive of the content within the proposed charging guidance.

Key issues raised by respondents included:

### Fair and Affordable Water Services

Dee Valley water expressed a specific concern around there being potential conflict between Welsh Government's policy on protecting vulnerable customers and Ofwat's Wholesale Revenue Forecast Incentive Mechanism (WRFIM), which could potentially lead to financial penalties if water companies out perform on their social tariff objectives.

The Welsh Government has noted this concern and will look to address the issue through relevant guidance and ongoing dialogue with Ofwat.

The Consumer Council for Water is concerned about tariffs being used to influence consumers' water usage as it could unfairly penalise various groups in society.

The Welsh Government will clarify the wording around different tariff structures to highlight the expectation that undertakers take into consideration mitigating schemes for vulnerable customers.

The Consumer Council for Water would like further clarification on whether companies are able to encourage people to use direct debit by offering a small financial incentive.

The Welsh Government will clarify the wording around different tariff structures to highlight the expectation that undertakers take into consideration mitigating schemes for vulnerable customers. However, the Welsh Government does not wish to encourage further financial incentives to be offered to those who are able to pay by direct debit if it results in those unable to pay by direct debit being disadvantaged financially.

### Transparent and Customer Focused Charging

Severn Trent Water expressed a concern regarding charges schemes clearly explaining each element of the charge. Severn Trent Water support transparency where it can create price signals to drive positive behavioural change. Their concern with the level of detail proposed is that it could cause unintended circumstances such as customer dissatisfaction over charges that customers have no control over, such as highway drainage charges. Severn Trent would encourage the separation of sewerage charges limited to those which can promote positive behavioural change in customers.

The Welsh Government believes that by revealing the separate costs of drainage to the sewerage network there will be an incentive for customers to look to make savings by disconnecting from the network and adopting a SuDS network. By also revealing the highways drainage charge, there may also be an incentive to pressurise local authorities to retrofit SuDS, and disconnect from the sewerage network, as customers may have assumed this is free of charge.

Seven Trent Water mainly agree with encouraging SuDS; however they disagree that the pricing link should be cut if a connection remains between the customer and the sewer. They would like to flag that proactively investigating the connection of all properties in their area would involve a great deal of cost which would ultimately be borne by the customers who are connected.

The Welsh Government will clarify this section to include the requirements that rebates apply to customers whose surface water does not flow either into public sewers, SuDS features adopted by the undertaker or drainage features that overflow into the public sewage network.

### Metering

A number of respondents have a desire to see guidance around metering continue to encourage a targeted rather than universal approach, and for safeguards to be established for both those transitioning onto meters and vulnerable water users.

The Welsh Government would encourage a targeted metering approach but would like to ensure that there are safeguards being put in to place for vulnerable customers as the level of metered customers increase.

### Taking account of Wales specific policy

Dŵr Cymru Welsh Water expressed concern that Ofwat's draft rules at present reflect the UK Government's charging rules but not those of the Welsh Government and would like clarification from Ofwat on how their rules will apply where there are areas of policy conflict between the two countries.

The Welsh Government have stated to their expectations relating to policy

differences between the two countries in the Guidance. In due course, we will be issuing a Strategic Policy Statement to Ofwat which will further define our expectations.

Severn Trent Water would like Ofwat to be explicit when putting forward proposals on charging rules about how they have balanced competing objectives.

The Welsh Government has added a line in the accompanying policy steer regarding an expectation for Ofwat to explain where they have had to balance conflicting objectives.

### Non-household customers

The Institute of Civil Engineers do not see long distance water transfers for non-household customers as a sustainable approach to long term water security.

The Welsh Government will look to address this in the more detailed Charging Guidance which will include Bulk Charges.

Dŵr Cymru Welsh Water have expressed a desire to see publication of developer charging guidance and support the Welsh Government's stance that there should be no change to the current arrangements in Wales until this work is completed and brought into force.

The Welsh Government is currently in the process of developing more detailed guidance around developer charges.

The Institute of Civil Engineers have recommended that when developer charging guidance is developed that the Welsh Government consider including lines on environmental protection and impacts on water security.

The Welsh Government will include the Institute of Civil Engineers in any stakeholder engagement relating to developer charges.

## **Next Steps**

The Welsh Government would like to thank all those who responded to our consultation on Charging Guidance to Ofwat. We have considered the comments and views expressed within the responses and will take them in to consideration when finalising the Guidance.

We have made drafting changes to the Guidance to clarify points raised by respondents including a clarification around metering, and customer payment options for those with affordability issues. We will publish the final Guidance shortly.

In addition, we are undertaking further work to produce more detailed guidance relating to the cost principle as well as developing Wales specific guidance for section 144ZD of the Water Industry Act regarding developer charges.