WORSHIPFUL COMPANY OF WATER CONSERVATORS

THINKPIECE ON WATER CHARGING

OCTOBER 2024

PROLOGUE

The Worshipful Company of Water Conservators (WCWC) is a City of London Livery Company focussed on the long-term health of our water resources and the broader related industries and their regulators, along with others who share our concern for water and the environment. Our experience and knowledge ranges from the complexities of environmental sciences, through the application of engineering to deliver the goals identified by those sciences, and the subsequent management of assets created. The WCWC's purpose is *promoting a diverse and sustainable environment.*

The WCWC has been producing think- pieces, alongside submissions to consultations, as contributions to the evolution of water conservation policy and practice. The topic of a think piece on water charging has been on its list of 'things to do', driven, in part, by the current public, media and political focus on the likely increases in water charges arising from the increased programmes of investment by water companies, and the consequences thereof. The actual increases over the period 2025-2030 will be determined by Ofwat in December this year. The WCWC has long advocated metering and tariff innovation as contributing major roles in the future of water conservation

This think piece addresses the purposes and ways in which charges are raised. It does not articulate any views on the costs of running water, such as capital investment, operating costs, debt servicing and dividend payments, which impact on the volumetric unit charges in the tariff structure .The term 'tariffs' and 'charges' tend to be used loosely and interchangeably .In this paper the term' charging' refers to the sums paid by customers for water services and 'tariffs' are the component parts of the charges

KEY POINTS

- It is agreed that the legacy system of using the size of property, as defined by notional rateable value, to create charges, is not fit for purpose. It is inequitable and fails to provide technically sound data. The challenge is in changing to a metered based system.

- The issues of charging and tariffs are, therefore, linked intimately with that of metering. There is a need to understand what metered tariffs should be set to do. They will be a mixture of income generation and behavioural incentives. The behavioural incentives should be designed to reduce consumption, particularly at peak times to contribute to water resources conservation and optimise asset use. The incentives will be cost related with savings for those customers who reduce consumption. There may also be social tariffs to aid customer finances.

- The proportion of metered properties is very variable from region to region, with the national figure about 60% metered. Metering is only compulsory in new properties and water stressed areas and when billing support is offered to customers.

- Metering can save up to 20% of water consumed, by increased awareness of wasteful consumption. But there is an on-going practical and political challenge in shifting the proportion of metered properties. This is because of the perception that switching favours low occupancy of large properties over the high occupancy of smaller properties.

- The sewage volume discharged is an assessed proportion of the volume of metered water supplied, usually 90%. In any review of charging, this might need to be re-appraised.

- Water companies have already included extensive programmes to extend metering including smart metering, such programmes should be cost justified to gain approval by the economic regulator, Ofwat. The WCWC has advocated a focus on how the national metering programme can be extended falling just short of a national regulated and compulsory programme. It would allow regional compulsory programmes.

- The WCWC supports the concept of Universal Metering but advocates that the concepts of Changeover Tariffs must be part of any review and that it is likely that there will still be a need for Assessed Volume Charges in properties with plumbing systems too complex for metering.

- The ultimate goal must be universal smart metering to facilitate tariff innovation, currently the penetration of smart metering is only 13% of properties.

- The WCWC supports the tariff trials and does not favour any particular innovation until those trials are complete, while it does observe that simple metering does not permit more sophisticated tariffs such as daily peak rate and off-peak rate charging, as is available with electricity and gas, so any innovation is likely to be predicated by smart metering.

- The WCWC supports the ‘Enabling Water Smart Communities (EWSC)’ project, an innovation project funded by Ofwat, but this must be tied in to any charging evolution.

- Support of vulnerable customers must continue in any future scheme. WaterSure will have its place.

- The WCWC recommends that a particular focus is needed on the content of standing charges and their balance with consumption charges. The extension of standing charges might be unpopular judging by the aversion to energy standing charges, but it might provide a way of facilitating other tariff changes.

- Non-household tariff structures offer greater scope for innovation which supports the drive for economic development, while protecting water resources. The non-household market has been opened up to competition. The growth of NAVs (new appointments and variations) to supply new developments also offers opportunities for tariff innovation. Some of the water retailers have been very proactive in introducing new tariff structures. The WCWC suggests that these tariffs must play a role in the government's commitment to growth.

- Tariffs sit within a matrix of other initiatives, including implementation of social tariffs, water efficiency drives, either via customer information or inspections at customer premises, statutory consumption targets, behavioural change and meter installation initiatives (including conversion to smart metering), environmental incentives, evolution of water fittings regulations and initiatives to promote the use of rainwater harvesting and local grey water reuse and working with white goods manufacturers to implement statutory labelling of water efficiency. They need better assimilation in one clear programme

- The WCWC has supported, with some caveats, the proposals by Ofwat for a Water Efficiency Campaign, and a national framework for environmental incentives as discounts for developer connection charges regarding water use. The national consumption target is 122 l/h/d by 2038 and 110 l/h/d by 2050, which it can be lower in local situations and the Ofwat proposals provide for even lower targets, as little as 80 l/h/d in new properties. The WCWC has advocated a review of the 1999 Water Fittings Regulations. Building Regulations are focussed on water fittings designed for 125 l/h/d but can be lower at 110 l/h/d and the WCWC has advocated a review of these, as well, in a coordinated process.

- Any evolution of tariff structures will inevitably require more information of consumer profiles and hence the billing customer interface will need to be changed.

- The WCWC observes that whilst there is a plethora of advice there is scope for more consistency and simplicity in communications.

SOME FUNDAMENTAL PRINCIPLES

1. The first step is to understand the fundamental premises of water charges which are often overlooked in the intense debates about charging regimes.

- Charges are part of a complex process of covering different needs and it could be argued that charge setting within that is the culmination end result of the combination of that process. These include the level of income which need for water utilities to raise, water resources and water efficiency management, and the regulation of water fittings, etc.

- The charges come in two parts; the standing charge to reflect the operational cost of the water utility etc. and the second is the consumption charge. A legacy procedure, as of 1989, is a consumption tariff based on a notional

rateable value of the property and a standing change which covers general maintenance of the supply. In the case of metered properties, the standing charge is based on the provision, maintenance and reading of the water meters and the consumption charge is based on metered volume and a volumetric tariff which is based on total operational costs, which may include a proportion to cover collection and disposal of sewage. All new properties have been metered since 1990.

- The fundamental point of charges has been to create income to run a water utility, but in recent times there have been moves towards what might be called behavioural tariffs, designed to change customer consumption habits as part of water resources management and keeping charges down. These can only be implemented via metered charges.

- It is recognised that for families on a low income, water charges may make up a substantial part of the family's outgoings. Water poverty is defined as when more than 5% of household disposable income is spent on water services.

2. So, it makes sense for the consumption element to be based on how much water is consumed and measured by meters rather than the size of property served. The legacy system is inequitable and does not provide technically useful data. The proportion of metered properties is very variable from region to region, with the national figure is about 60% metered. Metering is only compulsory in new properties and water stressed areas and when billing support is offered to customers. Metering can save up to 20% of water consumed, by increased awareness of wasteful consumption.

3. There is an on-going practical and political challenge in shifting the proportion of metered properties. This because the perception that switching favours low occupancy of large properties over the high occupancy of smaller properties.
In some parts of the UK the problem is particularly marked. In Northern Ireland the cost of supplying water is still taken from taxes. In Scotland there is virtually no domestic metering. The National Infrastructure Commission, which advises the Government on major projects, has said that water meters should be compulsory from the 2030s.More of this later.

https://www.savewatersavemoney.co.uk/water-efficiency-tips-advice/view/109/all-you-need-to-know-about-water-meters.html

4. The sewage volume discharged is included in the metered charge and is an assessed proportion of the volumed of metered water supplied, usually 90%. In any review of charging, this might need to be re-appraised.

5. Charging scheme rules are defined by Ofwat. The current set applied as from April 2023.

https://www.ofwat.gov.uk/wp-content/uploads/2022/12/2022_12_02_Charges_Scheme_Rules_from_April_2023.pdf

Ofwat provides a fuller explanation of how charges are levied Charging trials - Ofwat (last updated in September 2024). Reading this hyperlink is recommended. As in many things in life, a simple concept is underpinned by a complexity of issues. So, for instance, the regional standing charge is set per standard domestic meter, a large meter has a higher charge; charges for household water supplied are separate, in terms of rate per cubic meter, from taking waste-water back; waste water volumes are based on an assumption of some loss in use, usually 10% but can be higher in special circumstances. The wastewater rate contains an element for surface water which can be removed and the charge lowered there can be local tariff for special reasons.

An example is given for Anglian Water

Water Standing Charge per year	£37
Water Consumption Charge per cu m	£2.043
Sewerage Standing Charge full per year	£103
Sewerage Standing Charge without surface water	£33
Sewerage Discharge Volume (unmetered) 90% x metered water	
Sewerage Discharge per cu m	£2.1438
Water Sure water charge per year (see later for customer support)	£241
Water Sure Sewerage charge per year	£295

https://www.iwnl.co.uk/your-residential-charges/

6. In a small number of cases a customer wants a meter, but it cannot be fitted for a variety of reasons, such as complex plumbing, the charge is based on assessed volumes. Assessed charges are generally based on one of the number of bedrooms, type of property and number of occupants and the average metered bill in the water company's area. This must continue in any charging review.

https://www.ofwat.gov.uk/households/your-water-bill/assessed/

7. Non household properties are metered with the same fundamental principles .The standing charge is based on the size of meter, the on-site domestic element of consumption is separated out in terms of discharge tariffs and the waste water is dealt with by a separate regime of charging for trade effluents. Under the Water Industry Act 1991, trade effluent is any liquid waste produced by a business or trade that is discharged into a public sewer.

https://www.anglianwater.co.uk/SysSiteAssets/business/services/led225-trade-effluent-explained.pdf

https://www.yorkshirewater.com/business/trade-effluent

Some businesses that only produce domestic sewage are exempt from trade effluent discharge consent, including most small and medium-sized enterprises (SMEs) that produce wastewater from kitchens, bathrooms, and toilets. This applies to restaurants, pubs, hotels, offices, shops, hairdressers and health care premises.

8. About 30% of water is provided for non-household purposes The non-household (NHH) market and its customers consume around 30% of the total public water supply in England. The WCWC has observed that there is not a statutory obligation for water companies to supply water (as there is for household properties) and this needs to change to make the new growth obligation of Ofwat fit in better. This fits in with the aspirations of the Department of Business and Trade to boost the post Brexit economy, to which the WCWC have responded extensively.

https://mosl.co.uk/news-and-events/news/shining-a-green-light-on-the-non-household-market

https://www.ofwat.gov.uk/nonhouseholds/yourwaterbill/hownonhousehold/#:~:text=Nearly%20all%20non%2Dhousehold%20customers,the%20volume%20of%20water%20used

https://waterconservators.org/consultation-responses/

9. To promote the benefits of competition there are now entities which provide services outside of the statutory water companies, for example Independent Water Networks. It states that '*We own and operate water and wastewater networks across the UK, providing services to customers including supply of water, wastewater services, metering, and billing. As an independent water company, we can serve sites in all areas run by an incumbent regional water company where we are appointed as a NAV (New Appointments and Variations). We are regulated by Ofwat (The Water Services Regulation Authority) and adhere to the Codes of Practice and Guaranteed Standards for all water companies'*.

https://www.iwnl.co.uk/

10. For the non-household market, a market operator MOSL has been established. It states that '*We are the market operator for the non-household water retail market in England, which opened in April 2017 enabling more than 1.2 million business customers to choose who supplies their retail water and wastewater services.*

We sit at the centre of the market, with access to central market data, processing more than 90,000 transactions each day through the Central Market Operating System (CMOS).

We're responsible for the day-to-day smooth running of the market, enabling new companies to enter the market, customers to switch and settlement to take place. We also ensure that everyone involved is held to account for their performance in delivering the best possible service to business customers.

We also work with retailers, wholesalers, customers, and key stakeholders, such as the water regulator, Ofwat, to identify and implement ways to improve the market through our key improvement programmes'

https://mosl.co.uk/about/about-mosl

11. Helping to reduce consumption by whatever means is a contribution to cutting costs for customers and saving water resources. The problem is that theory assumes that less water consumed, less costs for water companies, less charges, life is never as simple as that linear assumption. This cross over of objectives in setting tariffs is what is causing angst. The need for water companies to put up changes by up to 40% is causing a great deal of angst, however justified. The concept of tariff innovation works easier in terms of non-household supplies which are open to competition.

TARIFFS AS PART OF WATER EFFICIENCY

12. In 2021 the government published its roadmap on new water saving measures to safeguard supplies.

New water saving measures to safeguard supplies - GOV.UK (www.gov.uk)

In summary the proposals included:

- Introducing mandatory water efficiency labels for products such as dishwashers and showers will help people to make informed choices about how they can save water without having to make significant changes to their daily lives. This would be similar to the traffic light energy efficiency labels that already exist.

- Asking water companies to develop a consistent approach on fixing customer supply pipe leakage. Over the last 10 years around 25% of total leakage has been from customer supply pipes.

- Encouraging local authorities to adopt a tighter standard of 110 litres per person per day, compared with the current standard of 125 litres, for new homes where appropriate, requiring developers to install more efficient fixtures and fittings.

- Developing a roadmap towards greater water efficiency in new developments and through retrofits – including options such as rainwater harvesting, water re-use and storage.

13. The proposals stated that these measures, along with the work from water companies to reduce leakage by 50%, will help meet the ambitions set out in the national framework for water resources to reduce average personal water consumption to 110 litres per person per day by 2050.

National Framework for Water Resources

14. In January 2023 the Government set out the Water Efficiency Roadmap.

https://www.gov.uk/government/news/ambitious-roadmap-for-a-cleaner-greener-country

15. The Environmental Targets (Water) (England) Regulations 2023 set targets for the reduction of potable water supplied by water undertakers in England. The volume supplied per day per head of population be must at least 20% lower than the 2019-2020 baseline by 31 March 2038. This has been set based on a trajectory to achieve per capita consumption (PCC) of 110 l/h/d, 50% reduction in leakage and a 15% reduction in business demand by 2050. The glidepath is such that the estimated target at 31 March 2038 is based on a PCC of 122 l/h/d, leakage reduced by 37% and business demand reduced by 9%.

16. Even with these programmes, the associated investment, and the expected supporting policies, Ofwat thinks the sector is at risk of falling short of its long-term goals for water efficiency. While the sector has worked on water efficiency for many years, Ofwat had not seen the sort of coordinated, sustained and large-scale initiatives that it considers are required to achieve significant progress. In the summer of 2023 Ofwat consulted on the urgent need for a new approach. It considered that a central fund manged within the Asset Management Plan (AMP) process has the potential to support the sorts of collaborative and innovative work that is necessary to get the sector on track. This consultation was the first stage of shaping that fund and bringing about the change that is needed.

Scoping the Water Efficiency Fund: High level consultation - Ofwat

Ofwat published a further consultation as the next step in May 2024; it builds on the responses received to the first consultation which are summarised in a separate summary of responses document. It sets out Ofwat's thinking on how the Water Efficiency Fund (WEF) should operate. It sought views on a wide range of related questions to help develop this thinking. As well as the summary of responses document, this consultation is accompanied by a cost benefit analysis. The responses will be used for setting out the final approach later this year. The WCWC's extensive response is archived on its website.

Scoping the Water Efficiency Fund: Second Consultation - Ofwat
https://waterconservators.org/consultation-responses/

17. The proposed approach includes two main streams in what will be known as the WEF. The objectives and scope of the WEF were widely supported so Ofwat has not changed them substantively. As well as proposing the two-stream approach, Ofwat has developed a range of aspects of the proposed approach including: evaluation, governance, financing, achieving a legacy, awarding projects and protecting customers.

- The first is a large behaviour change campaign, the WEC. This would allocate up to £75m over five years to a coordinated, high profile and expertly run campaign covering England and Wales. WEC would raise awareness of the need to use less water as well as the benefits this can bring, seek opportunities to change behaviour and give people the capability to change.

- The second stream is a smaller pot of around £25m over five years made available through annual competitions. Known as the WEL, it would be like Ofwat's Innovation Fund but focused solely on water efficiency. It would

address challenge statements scoped by industry experts which are also refreshed annually.

Allocations between these streams could change across the five-year period to bring flexibility to the approach.

18. In July 2024, Ofwat consulted on draft guidance for a common framework for environmental incentives to support sustainable new homes. It builds on the proposal outlined in its January 2024 conclusions document regarding environmental incentives to support sustainable new homes and has been informed by the outputs of the Environmental Incentives Working Group established by Ofwat in November 2023. Ofwat proposed changes to its charging rules to give effect to the common framework in its May 2024 consultations on Changing Ofwat's charging rules to further protect customers in the new developer services framework and draft Charging Rules for New Connection Services (English undertakers). Ofwat has updated its thinking in one respect - how to publish the common framework. Instead of adding it to the Common Terms and Worked Examples document, Ofwat proposed to publish the common framework separately. It is consulting on this proposal as part of this consultation. The consultation relates primarily to English water companies, for which Ofwat regulates developer charges through the new connection charging rules.

https://www.ofwat.gov.uk/wp-content/uploads/2024/07/Consultation-on-an-environmental-incentives-common-framework.pdf

The WCWC responded to this https://waterconservators.org/consultation-responses/

19. Water companies will have the flexibility to decide which levels of water efficiency they would incentivise, so long as the efficiency level is more ambitious than the mandatory level found in building regulations in any given year. The levels currently found in building regulations are 125 l/h/d and 110 l/h/d (in specific circumstances), but these may be lowered in the future. It provides water fittings Water efficiency fittings approach proposed methodology for particular levels of water consumption from 100 l/h/d day to 80 l/h/d and even lower.

20. In its response, the WCWC observed that the drive to lower consumption in new properties would be strong in areas where the average consumption was higher than the 110 l/h/d target or in water stressed areas.

21 The use of tariffs to incentivise lower consumption will sit alongside national and regional behavioural change campaigns. As well as the introduction of more demanding requirements of water fittings the WCWC has suggested very strongly that a review of the 1991 Water Fittings Regulations is needed urgently within this matrix of initiatives. Whilst other initiatives to reduce water consumption are not strictly relevant to charging per se, the simple fact is the less water used, the smaller a charge. Examples include the installation of water collection devices for rainwater and grey-water which are incentivised by water companies.

https://www.awdirect.co.uk/

The WCWC supported the introduction of a statutory scheme for white goods efficiency labelling.

https://www.gov.uk/government/news/household-goods-to-carry-water-efficiency-labels

22. Whilst everyone must be encouraged to use less water the greatest need will be in inherited assets as will be revealed when more properties are billed by metering rather than other non- metered methods.

23. In responses to both on the Ofwat consultations the WCWC has emphasised the need for a more integrated approach, an extension of metering and tariff innovation.

WATER POVERTY

24. This is very much at the centre of the current debate about increases in water charges. Any scheme must have a facility to support consumers on lower incomes and this will become more demanding in future as prices rise to support the extended programmes required by AMP8 (2025-30). Not only any scheme provide support, they need to offer advice and mechanisms to reduce consumption, as indeed will be the case in the WEF campaigns. This will include the use of innovative capture and recycling of available water resources such as rainwater and these are incentivised for new properties.

25. The poverty aspect of water charges is dealt with in sympathetic ways. Ofwat, encourages water companies to be creative in their charging methods to reduce bills and save water. For example:

- Social tariffs: All water companies offer a social tariff for eligible customers with low incomes. Eligibility and the level of support varies by company.
- WaterSure scheme: This scheme allows bills to be capped for certain customers with a water meter.
- Priority Services Register (PSR): This register provides free extra help from your water company for reasons such as illness, disability, or health condition.
- Water meter: Installing a water meter will be part of any support scheme such as Water Sure.
- Sewage service rebates: Households may be able to get a rebate for certain sewage services if they can prove they do not use them.
- Water-saving devices: Many water companies offer customers free water-saving devices such as water butts

https://www.ofwat.gov.uk/households/customer-assistance/

26. There is a great deal of advice on who is eligible for the WaterSure scheme, for example by the Citizens Advice Bureau, and reading this hyperlink is recommended.

https://www.citizensadvice.org.uk/consumer/water/problems-with-paying-your-water-bill/watersure-scheme-help-with-paying-water-bills/

Along with advice from Ofwat.

https://www.ofwat.gov.uk/households/customer-assistance/

And from the Consumer Council for Water.

https://www.ccw.org.uk/save-money-and-water/help-with-bills/

As a working example this hyperlink provides information detail from Cambridge Water which only provides water services but collects income for Anglian Water for sewerage services.

https://www.cambridge-water.co.uk/household/my-bills-and-payments/my-bill-explained/other-charges-and-tariffs/assure-tariff#:~:text=Who%20is%20eligible%3F&text=If%20your%20household%20income%20is,the%20second%20year%20by%2040%25.

TARIFF INNOVATION

27. Ofwat states *that 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, which affects both household and business customers. 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* Charging trials – Ofwat. Last updated in September 2024

It has more information about:

- current charging trials
- proposed charging trials for 2025-30
- how we regulate charges to protect customers
- how household charges are currently structured
- trialling new charging structures
- good practice principles for charging trials
- our expectations of water companies in sharing information about charging trials

28. And within the context of water fittings and behavioural change lies the issue of tariffs and their role in reducing consumption, both in terms of customer support and in water resources management. The WCWC, like many other organisations has been advocating tariff innovation. What does this mean in practice?

29 Ofwat, encourages water companies to be creative in their charging methods to reduce bills and save water. Some ways water companies can do this include:

- Seasonal tariffs. Companies can use seasonal tariffs if they read meters at appropriate intervals. These tariffs have higher volumetric rates in the summer than in the winter.

- Rising block tariffs (RBTs). RBTs charge more per unit of water for each additional block of water used. Blocks can be set for different levels, such as essential, average, or discretionary use.

To date, these have been more relevant to non-household tariffs which offer much greater scope for tariff innovation which supports the drive for economic development while protecting water resources.

Charging trials

30. Ofwat has called on water companies to conduct charging trials that are accompanied by effective customer engagement and support. (Charging trials – Ofwat, last updated in September 2024). The trials are aimed at supporting affordability, and potentially other sustainability goals such as reducing demand.

See our September 2022 consultation and March 2023 conclusions.

31. Ofwat opines that *there are several ways for companies to structure their charges, which could provide benefits and incentives to customers. For example:*

- *water companies could charge less per litre of water consumed up to a certain amount, and more per litre above this amount. This could help to reduce discretionary water consumption and make water bills more affordable. This is called a 'Rising Block Tariff'*

- *use seasonal charging, where the price per litre is lower in the winter and higher in the summer*

- *use peak pricing, where the price per litre is the same up to a defined level of consumption, but higher for water consumed above this level*

- *reduce bills for homes with water butts and permeable driveways, which can help to reduce risk of flooding and pollution to rivers and bathing water, particularly at times when water is scarce*

Current charging trials

32. South West Water began its Smart Saver tariff from 1 April 2024. This Rising Block Tariff charges around 500 customers a cheaper rate for using a lower amount (or 'block') of water and progressively higher prices for using larger volumes of water. South West Water has assessed that 90% of their customers will see lower bills on this trial. They will be offering water efficiency advice and devices to help all customers participating to reduce their bills.

Now the company is going further, with a plan to launch three more trials from 1 October 2024. Two will be for around 3,000 households and one for around 500 business customers.

- The household Summer Peak tariff charges a lower rate between October and March, and for all water consumed between April and September, up to 90,000 litres. All consumption above 90,000 litres in the summer months is charged at 4 times the base rate.

- The household Seasonal tariff charges a lower rate in winter months and a higher rate for all usage in summer.

- The business customer trial also follows the Seasonal tariff pattern.

More information is available at South West Water launches innovative new trial to make customer bills fairer, South West Water launches two new tariffs to trial fairer ways of charging customers and Smart Saver | Tariff Trials | South West Water

33. Affinity Water started a trial of a Rising Block Tariff in October 2023 with around 1,500 households, predominately in the Stevenage area. These customers receive an initial amount (or 'block') of water for free and pay progressively higher prices for using larger volumes of water (the "middle" and "end" blocks). The company expects at least two out of three homes in the trial to pay less for their water than they do currently. More information at affinitywater.co.uk/news/tariff-trial and Being a part of our WaterSave Tariff trial (affinitywater.co.uk).

34. Anglian Water launched two seasonal tariff trials from 1 April 2024. These tariffs charge more for water taken in the summer (May-August) than in the winter (September-April). The trial will apply to customers in the Norwich and Lincoln areas. Anglian Water has estimated that 2 out of every 3 customers would be no worse off or marginally better off under the seasonal tariffs compared with its standard charge.

35. South Staffs Water launched a trial in April 2024 for household customers who struggle with affordability but do not qualify for its Assure social tariff. The trial uses a 'rising block' structure, with the first block charged at the Assure rate and applying to essential use only. All water above essential use is charged at the standard rate. More information at customer-charges-south-staffs-final-2024.pdf (south-staffs-water.co.uk).

36. United Utilities trialled a reward scheme during 2024 that incentivises households to be more water efficient in return for the opportunity to win credits on their water bill. This lottery-style scheme included 2,000 customers who have engaged in water efficiency measures such as having a water meter fitted, installing a water butt or asking for a household water efficiency audit. A proportion of those in the scheme will win a year's worth of water as a credit to their bill. More information at household-charges-scheme-2024-25.pdf (unitedutilities.com).

Other developments

37 Portsmouth Water is running ‘saver session’ experiments to understand how it can influence customers to use less water over a 6-month window. It will ask participating customers to save water over different time periods ranging from one hour to one month with a view to changing behavioural patterns. Customers will be incentivised through reductions in their bills for registering to take part in each saving session and for reducing their usage over the saving session compared to their typical usage in those periods.

Proposed charging trials for 2025-30

38. This text is taken from Ofwat. ‘*All companies expect to trial new charging structures by 2030 and some of them plan to introduce them more widely for other customers if the trials are successful. In ‘Summary of water companies’ published plans for household charging trials‘, which Ofwat published on 12 January 2024, we set out information on the trials and other measures that water companies have included in their published business plans for 2025-30 for the 2024 price review. This document 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 by 2030.*

This document is for information only. Ofwat does not offer observations or critiques of any company’s plans because we assessed plans separately as part of PR24 – our quality and ambition assessments (QAA): we published the results of the QAA as part of our draft determinations in the 2024 price review. Find out more about the 2024 price review.’

39. Ofwat’s guidance on trialling new charging structures is given in the hyperlink:

https://www.ofwat.gov.uk/regulated-companies/company-obligations/ofwat-regulating-the-industry-compliance-requirements-charging/charging-trials/#:~:text=Trialling%20new%20charging%20structures,-There%20are%20several&text=This%20could%20help%20to%20reduce,and%20higher%20in%20the%20summer

40. The WCWC supports these trials and reserves its opinion on which innovation offers the best way forward until these trials are complete; the WCWC observes that simple metering does not permit more sophisticated tariffs such as daily peak rate and off-peak rate charging as is available with electricity and gas. And hence any innovation must be predicated by smart metering.

41 The WCWC suggests that tariff innovation must support the government’s commitment to growth without detriment to the water environment.

https://www.gov.uk/government/news/reed-investors-vital-for-water-infrastructure-growth-and-jobs

The Role of the Standing Charge

42. A clear point of attention must be, for example, to link raising block tariffs to the Water Efficiency Targets. For example, in a new metered property designed to the 80 l/h/d standard, a family of four could use 240 l/d, whilst a similar family behaving

responsibly in an older property with older fittings could be using 440 l/d and it could well be that a similar, but much older, property, nearby could have six residents with less focus on water saving, having been just transferred to a meter, might use 780 l/d. This seems to imply that any future tariff scheme will need much more customer specific information to calculate property specific charges.

43. The notion of having an allocated free or fixed traffic block as a starter for consumption charging implies an extension of the standing charge. The WCWC recommends that the content of standing charges and the balances with consumption charges needs examination. Whilst the dynamics of charging for energy supplies is different, the WCWC has noted the conclusion of a study by Ofgem in which it reported that standing charges are unpopular. It will take action.

https://www.ofgem.gov.uk/sites/default/files/2024-08/Standing%20Charges%20-%20summary%20of%20responses.pdf

https://www.ofgem.gov.uk/call-for-input/standing-charges-domestic-retail-options

44. Earlier in this paper, reference is made to the methodology for assessed volume which involves some knowledge of occupancy of properties. The WCWC wonders if this approach might be a starting point to resolve the standing charge issue and the starting point of a rising block tariff, which combines the Ofwat Environmental Incentive targets with property data. So for example, by way of illustration, in a three person occupancy the standing charge could be the traditional value plus the allocated volume calculated by 3 x 80 l/d and then the rising block starts at 240 l/d. The problem with this suggestion is that it will require a much more sophisticated system of data management with audit checks on consumption.

Smart Metering

45. Any change of tariff scheme must be clear and understandable by ordinary consumers and in the modern world this will mean an extension of smart metering The next step on from metering is smart metering. This will be key to any innovation in tariffs and charging as set out earlier. At present the usage is low at about only 13% of properties.

https://www.gov.uk/government/publications/a-review-of-englands-draft-regional-and-water-resources-management-plans/appendix-a-smart-metering-in-draft-water-resources-management-plans#:~:text=This%20supports%20immediate%20delivery%20to,of%20households%20have%20smart%20meters.

https://www.gov.uk/government/publications/a-review-of-englands-draft-regional-and-water-resources-management-plans/appendix-a-smart-metering-in-draft-water-resources-management-plans

46. WaterScan provides some clear explanations.

https://waterscan.com/2024/03/07/smart-water-meters-a-3-minute-guide/

47. Although smart metering for gas and electricity is fast becoming the norm, the adoption of smart meters across UK water networks remains in its infancy. This is likely to be because of the relatively high cost of energy when compared to water, driving customers to prioritise spend in this way. However, the organisations that are embracing smart water meter reading technologies are not just saving money; they are also taking positive action to improve water efficiency in line with increasingly urgent stakeholder demands to build water into sustainability and resilience plans. A quick guide provided by Waterscan which covers the basics, and benefits, of smart water metering is given in the hyperlink.

48. As an example of the benefits, Anglian Water reports that *its upgraded metering programme is forecasted to save the environment seven million litres of precious water between 2020 to 2025 by helping spot and resolve leaks in customers' homes and even more by encouraging behaviour change in how people use water.*

https://www.anglianwater.co.uk/news/anglian-waters-smart-meters-save-millions-of-litres-of-water-for-the-environment-and-millions-off-bills-for-customers/

49. *The water company's largest ever smart water metering installation programme is already helping customers better understand their water usage, plus detecting leaks quicker both on the customer side and across its network, in a bid to save this precious resource and money off bills. The programme has also saved Anglian Water customers approximately £15 million off annual water bills, last year alone, which equates to an average of £251.97 per customer. Since the first meters were installed in 2020, Anglian Water has helped customers find and resolve more than 100,000 leaks at their properties. So far, more than half a million smart meters have been fitted in homes.*

50 The WCWC supports the 'Enabling Water Smart Communities (EWSC)' project, an innovation project funded by Ofwat , but this must be tied in to any charging evolution..This is led by Anglian Water, with other partners including Arup, Thames Water, United Utilities, CIWEM, University of East Anglia, The University of Manchester, leading academics and developers.

https://www.ewsc.org.uk/

Billing Interface

51. Inevitably the evolution of tariff structures will need more information on consumer profiles and inevitably the customer billing interface will have to change.