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Welsh Government

Consultation - Summary of Responses

Draft guidance to water and sewerage undertakers and the Water Services Regulation Authority (Ofwat), in relation to social tariffs

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Introduction

On 14 November 2011 the Welsh Government, published a consultation on the implementation of the Flood and Water Management Act 2010 (Section 44). It enables undertakers to reduce charges for individuals who would otherwise have difficulty paying their bill in full. It explicitly allows undertakers to introduce cross-subsidy between customers.

Section 44 of the Act requires the Welsh Ministers to issue guidance which must include factors to be taken into account in deciding whether one group of customers should subsidise another. It also requires Welsh Ministers, in issuing guidance, to balance the desirability of helping individuals who would have difficulty paying in full, with the interests of other customers.

The consultation on the draft guidance sets the framework within which an undertaker can bring forward a social tariff if it chooses to do so. It also sets the framework which Ofwat should consider when exercising its power to approve charges schemes.

A full 12 week consultation on the draft guidance took place between 14 November 2011 and 6 February 2012.

The consultation was issued electronically to a range of stakeholders and was made available on the Welsh Government website.

A total of 8 responses were received from water companies and regulators as well as consumer organisations and charities. A list of respondents can be found at Annex A on page 9.

Summary of Consultation Responses - Overview

The Welsh Government has considered the responses to the consultation and a number of concerns were raised by stakeholders. The key issues raised with the consultation included:

- The need for the guidance to be clear and simple to use. The guidance should also encourage the efficient use of water as well as reducing the cost to low income households.
- There is a need to consider what help can be offered to households who just miss out on the threshold of the social tariff. Any social tariff should be seen as part of a package of measures to help reduce the cost of water bills and ensuring water is used efficiently.
- There is a need to take in to account the impact of the cost of social tariffs on different consumers. Water companies should seek to mitigate the impact of cost increases on households to fund social tariffs.
- Any social tariff should have support from consumers and consumer bodies, such as Consumer Council for Water.
- The criteria of social tariffs should be set out by the Welsh Government to ensure all customers in Wales have easy access to social tariffs whilst making sure that these satisfy Ofwat.

The draft Guidance will be amended to take these concerns in to account.

Detailed Summary of Consultation Responses

Section 2 – Bringing forward company and social tariffs

Question 1: Do you agree with the principles and criteria set out in paragraph 2.5 of the draft guidance?

The majority of the respondents were positive and broadly agreed with the criteria as set out in paragraph 2.5 of the consultation document. Five out of eight respondents answered in a very positive or positive manner. However they did raise some general concerns.

These concerns included:

- A possible risk of a backlash against commercial water companies.
- Long term planning and change of attitudes in regards to water usage is needed.
- Incentives in efficient water use and general water use efficiency need to be offered in addition to social tariffs.
- The eligibility criteria for a social tariff needs to be clear, the application process needs to be simple and transparent to avoid putting consumers off applying for the social tariff.
- Cost and affordability of the social tariff.
- The cross subsidy threshold of the social tariff.
- Some respondents felt undertakers should consider applying any social tariff automatically to the bills of people already known to them to be eligible once the criteria are devised.
- The eligibility of the tariff should be wider than receipt of means-tested benefits alone and that individual affordability assessments could be a fairer way of determining eligibility, especially for people who have high usage needs due to medical conditions.
- Strict comparison to means-tested benefits is not a perfect mechanism for several reasons such as presenting a 'cliff-edge' scenario where those people just over the threshold receive very little support at all, and exacerbating issues for people not claiming their entitlements.

Key messages:

- The eligibility criteria of any social tariff should be clear and the application process should be straight forward in order to avoid discouraging people from applying for help.

- Social tariffs should form part of package of measures to help tackle water efficiency and reduce water usage. Social tariff eligibility should go further than means test benefits or offer additional support to those who miss out on the eligibility of the tariff.
- Ideally social tariffs should be offered to all those householders that a water company knows to be eligible.

Section 4 – Customer engagement

Question 2: Should the guidance set a threshold for the level of customer support needed for a social tariff to be approved. If so, what level should this be?

Of the respondents seven out of eight answered the question regarding the setting of a threshold. One respondent did not comment. Some of the respondents felt that clear guidance from the Welsh Government would help to avoid confusion or ambiguity. It was felt that it is essential for water companies to directly engage with different sections of their customer base as well as consumer groups to ensure there is support for the proposed social tariff. By engaging with all sections of their customer base a water company could seek to mitigate the impact of the social tariff and provide transparency across the billing subsidies.

Key messages:

- The Consumer Council for Water could be specifically charged with advising and agreeing that the water companies approach to customer engagement is acceptable. They should also consider whether the proposals to be submitted as part of the charges scheme align with customer views of what is acceptable.
- Concerns were raised over whether a water company would be able to get broad customer support over its proposals for a social tariff. It was suggested that it maybe more helpful to have a threshold of support mandated by Government or more general support for the tariff.

Section 8 – Cross subsidy

Question 3: Do you agree that undertakers should decide whether cross-subsidies for social tariffs come from household customers only or from household customers and non-household (business) customers?

Seven of the eight respondents answered. There was a feeling that the Welsh Government should provide a steer in this area as to whether the inclusion of business customers and household customers would have a significant bearing on the value of the social tariff. If non-household customers are not included in cross-subsidy it could limit either the value of the social tariff or the numbers of customers who can be made eligible.

Including non-household customers would also reduce the impact of cross-subsidy on other households.

There was a feeling of uncertainty due to possible future developments in the water industry. Extending the tariff to non-householders would be problematic if competition were introduced unless it was applied to all non-household customers regardless of supplier.

Key messages:

- There was mixed feelings over whether non-households customers should be included in the cross subsidy for social tariffs and there was a feeling this should be directed by Government.

Question 4: In the draft guidance we propose that undertakers should have flexibility to determine the level of cross-subsidy for social tariffs. What are your views on this approach?

Five of the eight respondents answered the question. The guidance needs to be clear on the level of cross subsidy in order to avoid confusion amongst consumers. If Government introduced a mandated set of constraining parameters within which companies could design and operate social tariffs and it falls within these constraints it should be approved by Ofwat.

Key messages:

- An appropriate balance needs to be struck between the interest of those customers to be helped by a social tariff and those who would pay for it. Particularly as there is no strong link between water charges and household income. The level of cross-subsidy opens up questions about what customers are already paying because of debt and affordability issues and how efficient and effective companies are at dealing with these issues.

Question 5: We have asked a number of specific questions. If you have any related issues which we have not specifically addressed please inform us:

- People with disabilities usually have increased hygiene needs, thus have higher water bills and subsequently struggle to meet these bills and should be able to benefit from any proposed social tariffs.
- Metering is a key part of the solution to affordability and central to the sustainable use of water. By tracking the volume of water used, customers can be in control of what they use and what they pay, as well as quantifying efforts to save water. Research shows that metering can save average 25 litres per person per day and these savings would be reflected in water and energy bills
- Support for water efficiency devices and advice to be included, as part of a coherent package, alongside social tariffs. However, more

emphasis put on this throughout the guidance, to encourage water companies to operate in the most water-efficient way and promote these messages to customers. It is fundamental to tackling affordability concerns, particularly for metered homes, that customers are provided with the information and incentives to help them use water efficiently. Water efficiency retrofits are cheap and can be easily installed to help customers waste less water and save on bills (both water and energy). Water efficiency is a key tool in tackling affordability concerns, alongside social tariffs and meters.

- Some requirements in the draft guidance could represent a considerable burden on small water companies by requiring them to provide evidence that a social tariff provides the best outcome, checking eligibility, promotion etc.
- The guidance refers to retro-fitting of water efficiency devices. At present no specific allowance is made for price limits in water efficiency measures. If the cost of the devices is to be met by the generality of the customers, then Ofwat would have to agree to take it into account in the setting of price limits.
- Data sharing – Social tariffs would be much better targeted if companies had access to relevant information (e.g. means tested benefits or tax credits) held by government departments or agencies.
- The effectiveness of any social tariff should be periodically reviewed but suggest that a maximum review period of five years would be more appropriate than the three year limit.
- Social tariffs should apply to both unmeasured and measured customers as part of a coherent package of targeted support.
- Affordability tariffs – Water Assist, Water Direct and Water Collect were introduced as a win-win approach but there could be diminishing scope to demonstrate their continued win-win status through successive regulatory price reviews. The long term future of these tariffs would be more secure if they were viewed as social tariffs or a hybrid variant. It is notable that if they were introduced today they would not meet the social tariff guidelines as currently drafted and would not have received broad customer support prior to their introduction.
- It should be noted that while win-win tariffs are designed to be cost neutral the generality of customers they may be a time lag before they derive sufficient benefits to outweigh their immediate costs. This is a significant barrier to the innovation of affordability support that could be overcome by introducing them firstly as social tariffs.
- Role of Ofwat – where a company brings forward social tariffs that are compliant with Welsh Government guidance, Ofwat should approve these tariffs as part of the overall scheme of charges. Where there is

doubt about compliance Ofwat should be proactive in offering advice and seeking timely solutions to allow a revised social tariff to be introduced.

Annex A - List of consultation respondents

Charities:

Age Cymru
Disability Can Do Organisation

Consumer Organisations:

Consumer Council for Water (Wales)
Consumer Focus Wales
Waterwise

Water companies:

Dee Valley Water
Dŵr Cymru Welsh Water

Industry regulator:

Ofwat