The Consumer Council for Water's evidence to the National Assembly for Wales Environment and Sustainability Committee

Water Policy Inquiry

1. Introduction

1.1 The Consumer Council for Water (CCWater) is the independent, non-departmental public body representing the interests of water and sewerage consumers across Wales and England. We have a committee for Wales and four local committees in England.

1.2 We have worked with the water industry and its regulators since 2005 to get the best results for water consumers. In that time we have:

- **been central to achieving the customer focused outcome from the 2009 price review**, with a decrease for bills (real terms) for Dŵr Cymru Welsh Water customers of about £30 by 2015;
- **convinced water companies in Wales and England to return almost £290m to customers** through either additional investment, customer assistance or bill reductions;
- **dealt with over 290,000 complaints and enquiries**, including **over 11,000 in Wales**;
- **helped customers get over £15m in compensation and rebates** from water companies **including over £2 million for customers in Wales**; and
- **cost 21p** for each water bill payer in 2012-13.

1.3 We welcome the opportunity to submit evidence to the Environment and Sustainability Committee's inquiry on water policy in Wales.

1.4 Our evidence is provided from the perspective of water consumers, both household and non-household, and is based on our wide ranging consumer research undertaken over the past seven years, as well as our experience in helping customers with their complaints and enquiries.

2. Overall Response

2.1 The implications of the Draft Water Bill on competition for customers in Wales

2.1.1 The current drafting of the Water Bill would allow all non-household customers of Dŵr Cymru Welsh Water and Dee Valley Water located in England to switch supplier. In contrast, the majority of both companies' non-household customers located in Wales will not be eligible to switch supplier. These different approaches could cause confusion where non-household customers operate in the border areas between Wales and England, or for customers with multiple sites across national boundaries. Clear information about eligibility to switch supplier will be needed to minimise confusion.

2.1.2 The Draft Water Bill could disadvantage ineligible customers in Wales if:

- Investor confidence in the water industry is undermined by changes to the structure of the industry, including the extension of competition for non-household customers. This could cause financing costs (the cost of capital) to increase which could impact on customers' bills.
- England based customers of the water companies operating in Wales switch supplier and a water company operating Wales is left with stranded assets (pipework and treatment works that become redundant or under-utilised) increasing costs to customers and risks to services in Wales.
- Bills rise because of the extension of competition, and specifically if de-averaging of prices occurs as a result of upstream competition in areas of England that are served by water companies in Wales.
- They do not have a strong voice and representation during the development and implementation of the Water Act provisions.
- CCWater is not consulted by water companies (including those in Wales) on draft charges schemes. Consultation with CCWater allows potentially problematic charging proposals to be challenged and amended or removed.

2.1.3 CCWater thinks that to address these possible risks the new Water Act should require:

- The regulator (Ofwat) to specify rules and principles to ensure all ineligible customers are no worse off from increases in charges resulting from the introduction of a competitive market in water and/or sewerage services.

- The regulator (Ofwat) to ensure access charges are set to protect household customers and other ineligible premises from further de-averaging within an undertaker's area, due to their geographical location, as a result of upstream competition.

- The regulators (Cyfoeth Naturiol Cymru Natural Resources Wales and Drinking Water Inspectorate) to be appropriately resourced to ensure drinking water quality standards are maintained and supply security is not compromised if upstream market reform in

England is introduced.

- Water companies to consult with CCWater about their draft charges scheme to ensure any proposed changes to tariffs do not result in detriment to ineligible customers.

- A continued strong water consumer voice to ensure competition eligibility is communicated effectively to customers and to help shape the development of the competitive market in a way that presents the interests of customers and maximises benefits for all, particularly those ineligible to switch in Wales.

2.1.4 In addition to CCWater thinks that the Welsh Government should

- Review the implementation of the Water Bill and its final provisions before and after 2017 to ensure it fully considers potential benefits for non-household customers in Wales

- Seek evidence from (cross-border) companies and customers on the implementation of the provisions on market reform in England and to ensure this is not to the detriment of ineligible water customers.

2.2 Addressing water affordability for household customers in Wales

2.2.1 CCWater believes that the Welsh Government (WG) could address affordability for household consumers effectively if it:

- Takes into account the scale of the problem. One in ten customers in Wales tell us they cannot afford their water bills[1].

- Considers water customers' views on how water affordability should be addressed, and the extent to which they are likely to be willing to contribute through water bills to a solution[2].

- Addresses fuel, energy and water poverty together through concerted Welsh Government action, streamlined by its Tackling Poverty Action Plan[3] as delivered by its different departments, who should all manifest the same awareness and understanding of all affordability issues.

- Gives companies appropriate powers to help them minimise debt and the associated costs which are passed on to other customers[4].

- Issues and monitors the implementation of guidance on the introduction of social tariffs by water companies that recognises that whilst customer funded solutions could help to address the problem these will inevitably be constrained by customers' willingness to contribute through bills.

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[1] CCWater Annual tracking Survey 2012.
[2] CCWater research on cross subsidies and social tariffs, 2010, http://www.ccwater.org.uk/upload/doc/Cross_subsidies_and_Social_tariffs_FINAL_8_June_2010.doc.
[3] The Welsh Government's objective is to keep water bills at an affordable level and for customers to have a choice of charging options that will reduce debt and protect vulnerable groups and its current proposals focus on tackling this mainly through the introduction of new social tariffs and monitoring the percentage of Welsh Citizens in water poverty.
[4] Consultation on and the enactment of the debt collection provisions of the Floods and Water Management Act 2010 (Section 45). This would enable the registration of non-owner occupiers and helping identify those who will not pay their bills to try and reduce the rising cost of debt on all customer bills in Wales.

Response to the Environment and Sustainability Committee's Water Inquiry specific questions

3 What impact will the Draft Water Bill have on competition in the non-household market in Wales?

3.1 The draft Water Bill could create confusion amongst non-household customers about eligibility to switch supplier. Non-household customers based in England, served by a water company in Wales, would be able to switch supplier, while in Wales eligibility would remain limited to non-households using more than 50 Ml (50,000 $m^{3)}$ [5].

3.2 Non-household customers that operate in Wales as well as England and/or Scotland would not be able to take full advantage of the price discounts and harmonised billing arrangements available to multi-site customers that operate in England and Scotland only.

3.3 Non-household customers in Wales could miss out on the potential benefits that a competitive market could facilitate, such as reduced bills, single billing, better-tailored or innovative services.

3.4 However, non-household customers in Wales could be protected from potential risks that the extension of competition could present, such as for example mis-selling, misinformation and the potential deterioration of the quality of services. Such risks are likely particularly if the new market mechanisms, systems and frameworks cannot cope with the level of activity that market reform could generate.

3.5 The draft Water Bill continues to allow current new appointees or inset appointees to expand their business under the National Appointment Variation (NAV) or inset regime. We have concerns that some new or inset appointees are not paying the true costs of the bulk supply leading to cross-subsidies and an increase in bills for customers in Wales. We think that Ofwat should examine how impacts on water companies' existing customers could be reduced or removed whilst considering this issue of wholesale pricing.

3.6 We also think that draft Water Bill provisions on upstream competition could:

- Impact on the bills of those who are ineligible to switch supplier or who choose not to do so.
- Impact adversely on the security and quality of supply.
- Reduce incentives for long term water resources planning.

3.7 We believe these upstream competition risks could be addressed by:

- The regulator (Ofwat) introducing access charges set to protect household customers and other ineligible premises from further de-averaging within an undertaker's area, due to their geographical location, as a result of upstream competition.
- The Drinking Water Inspectorate (DWI) approving clearly defined processes and procedures for trading both raw and treated water.
- The Welsh Government and the regulators ensuring that deferment of investment in resource development does not lead to security of supply problems.

[5] The current exception to this is non-household customers of Severn Trent in Wales who had the threshold for competition reduced to 5Ml (5,000 $m^{3)}$.

3.8 We believe that customers ineligible for competition should be protected and not disadvantaged by its extension. In fulfilling our role, we wish to ensure that all customers are satisfied with the quality and affordability of the services provided, and that they represent good value for money. We think it is important to continue listening to what customers have to say through the different stages of the Water Act's implementation. Through our research we know that:

- 84% of larger business customers [6] and 69% of small and medium enterprises (SMEs) support competition in principle[7], with price being the key reason for switching supplier.
- 81% of large business customer would expect a 10% saving on their bill upon switching while 51% SMEs[8] would switch supplier if they could save over 10%.
- Amongst SMEs awareness of competition and change of supply opportunities is low, just 8%[9].
- SMEs based in Wales have a more positive view of water and sewerage companies than businesses based in England, both with regards to satisfaction with services and value for money[10].
- Most SMEs would like to see consistent rules on competition eligibility across the two countries, particularly by those who had premises located in both countries[11].
- A significant proportion of SMEs in Wales think competition in the water industry is a very good thing (64% compared to 30% in England) and are interested in changing supplier (46% compared to 32% in England).

3.9 We think there is a need for water consumers to have a 'strong voice' to represent their interests as the water sector is reformed and welcome the Federation of Small Businesses (FSB) and the EFRA Committee's recognition of the important role CCWater has to play in delivering this[12]. We also welcome this recognition that all customers will continue to need representation after the market is opened up.

4 Are there any specific issues that might arise from having different market regimes in Wales and England for non-household customers, particularly in border areas?

CCWater considers it important that customers ineligible for competition are protected and not-disadvantaged by the proposed market reform in England.

4.1 The draft Water Bill seems to propose that the extension of competition in the water market moves to political administrative boundaries rather than company boundaries that apply in other circumstances. We understand that the Welsh Minister for Environment and Sustainability has raised concerns about this proposal.

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[6] CCWater and Ofwat research with business customers, 2007, http://www.ccwater.org.uk/upload/pdf/FinalReport.pdf.
[7] CCWater research on Small and Medium Enterprises' views on competition on the water and sewerage industry, 2010, http://www.ccwater.org.uk/upload/pdf/SME_Competition_FINAL_11_June_2010_20100611143232.pdf.
[8] Ibid.
[9] Ofwat and CCWater research on SMEs, 2012, http://www.ccwater.org.uk/upload/pdf/Understanding_the_needs_of_SMEs.pdf.
[10] Ibid.
[11] Ibid.
[12] House of Commons EFRA Committee report on the Water White Paper, http://www.publications.parliament.uk/pa/cm201213/cmselect/cmenvfru/674/674.pdf.

4.2 Whichever boundary is chosen it could lead to considerable confusion amongst non-households customers, particularly in border areas. These include:

- Welsh non-household customers, including some non-household customers of Severn Trent Water in Wales, complaining about being disadvantaged in relation to their competitors in England.
- Non-household customers with properties on both sides of the border (or in Scotland, too) being subject to different competitive regimes and therefore not getting the full benefits of all services such as multi-site discounts and harmonised billing.
- (if the draft Water Bill does not eventually move to a geographical split of functions) non-household customers in England or Wales might complain about being subject regulations of a government that is not responsible for the policy of the country they live in.

4.3 Water companies and CCWater will need to work together to inform non-household customers at border areas about switching opportunities as the market opens up in England.

4.4 As competition unfolds in England there is a risk of deterioration in services to ineligible customers and those choosing not to switch as water companies turn their focus to retaining current customers and seeking new ones.

4.5 To minimise these risks we think the Water Act should require:

- The regulator to specify rules and principles to ensure ineligible customers are no worse off from increases in charges resulting from the introduction of a competitive market in water and/or sewerage services.

- Water companies to formally consult with CCWater about their charges schemes to ensure proposed changes in tariffs do not result in any detriment to ineligible customers.

5 What progress has the Welsh Government made on its commitments set out in its Programme for Government Update (May 2012)?

5.1 We have addressed this question in Section 6 of our response but in summary we think that the Welsh Government Tackling Poverty Action Plan has made a start at integrating water in its long term plan to tackle affordability issues in Wales. Its current proposals focus on tackling poverty mainly through the introduction of new social tariffs and monitoring the percentage of Welsh Citizens in water poverty.

5.2 To meet the initial commitments made in the Action Plan we look forward to the Welsh Government issuing its guidance on Social Tariffs and enacting the debt collection provisions of the Floods and Water Management Act 2010 (Section 45).

5.3 Finally, as we explain in Sections 6.2 and 6.3 below, we think that to address the full scale of the water affordability problem in Wales (and England) government funding might be necessary and that both UK and Welsh Government might need to look beyond customer funded social tariffs to assistance from taxation.

6 What current mechanisms does the Welsh Government have in place to ensure water affordability in the household market?

Is there anything further that the Welsh Government should be going to ensure water affordability in the household market?

6.1 An effective Welsh Government approach to tackling water affordability in Wales would be one that:

- Takes into account the scale of the problem. One in ten customers in Wales tell us they cannot afford their water bills[13].
- Considers water customers' views on how water affordability should be addressed, and the extent to which they are likely to be willing to contribute through water bills to a solution[14].
- Addresses fuel, energy and water poverty together through concerted Welsh Government action, streamlined by its Tackling Poverty Action Plan[15] as delivered by its different departments, who should all manifest the same awareness and understanding of all affordability issues.
- Gives companies appropriate powers to help them minimise debt and the associated costs which are passed on to other customers[16].
- Issues and monitors the implementation of guidance on the introduction of social tariffs by water companies recognising that whilst customer funded solutions could help to address the problem these will inevitably be constrained by customers' willingness to contribute through bills.

6.2 We recognise that the Welsh Government's objective is to keep water bills at an affordable level and for customers to have a choice of charging options that will reduce debt and protect vulnerable groups[17]. However our research into customers' willingness to fund low income customers through bills suggests that government funding might be necessary[18] to address the full scale of the water affordability problem in Wales (and England).

6.3 Welsh Government guidance on Social Tariffs could influence the design of social tariffs for 2014/15 and could contribute to tackling water poverty in Wales but affordable water bills may not be achievable through customer-funded social tariffs alone. Estimates of the annual cost to effectively address the affordability problem in England and Wales range

[13] CCWater Annual tracking Survey, June 2012, http://www.ccwater.org.uk/upload/pdf/annualtracking2012.pdf;
[14] CCWater research on cross subsidies and social tariffs, 2010, http://www.ccwater.org.uk/upload/doc/Cross_subsidies_and_Social_tariffs_FINAL_8_June_2010.doc.
[15] The Welsh Government's objective is to keep water bills at an affordable level and for customers to have a choice of charging options that will reduce debt and protect vulnerable groups and its current proposals focus on tackling this mainly through the introduction of new social tariffs and monitoring the percentage of Welsh Citizens in water poverty
[16] Consultation on and the enactment of the debt collection provisions of the Floods and Water Management Act 2010 (Section 45), which enable the registration of non-owner occupiers and helping identify those who will not pay their bills to try and reduce the rising cost of debt on all customer bills in Wales.
[17] Welsh Government Tackling Poverty Action Plan, http://wales.gov.uk/docs/dsjlg/publications/socialjustice/120625tackpovplanen.pdf.
[18] CCWater Research on Water Affordability in England and Wales, 2009, http://www.ccwater.org.uk/upload/doc/CC_Water_final_report_1_Apr_2009_FINAL.doc,

from around £160m to £450m[19] but a customer-funded social tariff might only provide around £40m[20].

6.4 We welcome the UK Government funding of £50m, enabled by the Water Industry (Financial Assistance) Act 2012 and used to improve the fairness of charges to South West Water customers. We would like to see the same Act used to address issues of affordability in areas that need it most and in line with customers' views. The average water and sewerage bill in Wales remains the third highest in England and Wales despite seeing one of the lowest percentage increases for 2013/14[21]. In 2009 the proportion of households spending more than 3% of income of their income on water bills in Wales was 30% (33% in the South West)[22].

7 With specific regard to affordability and competition, what should the Welsh Government include in its forthcoming Water Strategy?

CCWater suggests that the Water Strategy for Wales:

7.1 Consults on and specifies the final position of the WG on competition in Wales. CCWater is happy to work with the WG on the policy direction it decides. We have previously shared our business customer views on competition and has researched the benefits and disbenefits of the introduction of upstream competition. Our research is summarised in Section 3 of this response.

7.2 Addresses any possible impacts on business and household customers in Wales as a result of the Draft Water Bill on competition, e.g. cost, service, quality, confusion over changes in cross-border areas by:

- Requiring that water companies consult and work with CCWater on communication of the implementation of market reform in England, to minimise confusion for customers in Wales and particularly those in border areas.
- Requiring that rules are introduced by Ofwat to ensure that the costs of introducing competition are not borne by ineligible customers in Wales and England – following the abolition of the 'costs principle'.
- Seeking evidence from (cross-border) companies on the implementation of the provisions on market reform and what they do to ensure this is not to the detriment of ineligible water customers.
- Expecting CCWater to monitor service standards of ineligible customers for customers in Wales and challenge when appropriate.

7.3 Considers government funded water affordability solutions as this would:

[19] In work commissioned by CCWater in 2009 the University of York identified a range of possible interventions to address, to varying degrees, the water affordability problem. The cost of these options ranged from around £162m to £447m per annum. Link here. The Walker report indicated that about £340m per annum would help through various measures. Link here.

[20] This figure has been calculated by multiplying the number of customers in England and Wales, excluding those eligible for assistance, (20m) by a £2 subsidy, which was the maximum that customers indicated they are willing to pay in CCWater research on cross subsidies and social tariffs, 2010, http://www.ccwater.org.uk/upload/doc/Cross_subsidies_and_Social_tariffs_FINAL_8_June_2010.doc.

[21] Dwr Cymru's average water and sewerage bill for 2013/14 has seen an increase of 1.7% at £434. This is the same average bills as Anglian Water and following closely the bills of South West Water (£499) and Wessex Water (£476).

[22] Whilst 14% is the proportion of households spending 5% of their income of their income on water bills in Wales. Data taken from Ofwat Affordability Report – link here – data taken from Family Resources Survey 2008/2009.

- Take account of customers' preference for a single company wide social tariff funded through taxation[23].
- Recognise that whilst customer funded solutions could help to address the problem these will inevitably be constrained by customers' willingness to contribute through bills as explained in Section 5.4.

7.4 Monitor the effectiveness of implementation of the guidance for customer funded social tariffs to help address the affordability problem and which should:

- Target both metered and unmeasured low income customers based on their actual financial circumstances. This should be identified through receipt of benefits or by individual assessment rather than any secondary characteristics such as e.g. household type.
- Require companies to test the acceptability of any proposed measures and likely bill cross subsidy by engaging with customers and CCWater.
- Ensure the transition from Welsh Water Assist to any new social tariff is managed effectively to avoid leaving those most in need without assistance.

7.5 Facilitates effective collection of water bills by identification of non-owner occupiers of properties and landlord's liability: to make bills more affordable in Wales and to reduce the cost of debt on customers. This can be addressed through consultation on and the enactment of the debt collection provisions of the Floods and Water Management Act 2010 (Section 45).

7.6 Strengthens the expectation that water companies consult CCWater annually on charges to ensure water customers are adequately protected before charges are implemented.

7.7 Removes highway drainage charges from water customers' bills to improve affordability in Wales. Payment through council tax charges would allow discounts for those on low income, and incentivise the development of more sustainable drainage solutions by local councils.

7.8 Supports the promotion of optional and targeted metering, particularly in conjunction with fuel and energy efficiency messages, as a means of delivering lower bills to some single occupiers and smaller families.

8 CCWater views on other provisions of the Water Bill

8.1 CCWater has previously shared its views on other aspects of the draft water Bill with the EFRA Committee and we would like to also highlight our views on:

- **Abstraction regime reform:** We note that the reform of the abstraction regime is due to be considered under future legislation. We think this is the right approach as time is needed to properly evaluate environmental benefits, and to ensure there is no detriment to water consumers.

[23] CCWater research on cross subsidies and social tariffs, 2010, http://www.ccwater.org.uk/upload/doc/Cross_subsidies_and_Social_tariffs_FINAL_8_June_2010.doc.

- **Ofwat's complaints work:** The draft Water Bill paper suggested the Water Bill might include proposals for Ofwat to have greater discretion about the types of casework it handles. We support the Government considering `the findings of Defra and the Welsh Government's *Review of Ofwat and consumer representation in the water sector*[24] 'the Gray Review', which suggested that 'all customer complaints are dealt with by an appropriate body and the route for complaint is clear'. Customers will benefit from better service if Ofwat's complaints are taken on by CCWater. CCWater is ready to work with Ofwat to ensure that the route for complaint is clear, that consumers see benefits and an improve service and not detriment from any change, e.g. no gaps in consumer representation.

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[24] Link here to Defra and Welsh Government review.