

## Environment and Sustainability Committee

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Meeting Venue:  
**Committee Room 3 – Senedd**

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Meeting date:  
**21 March 2013**

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Meeting time:  
**09:30**

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Cynulliad  
Cenedlaethol  
Cymru

National  
Assembly for  
Wales



For further information please contact:

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### Agenda

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**1. Motion under Standing Order 17.22 to elect temporary Chair (09.30)**

**2. Introductions, apologies and substitutions (09.30)**

**3. Water policy in Wales – Evidence from Dŵr Cymru (09.30 – 10.15)**  
(Pages 1 – 23)  
E&S(4)-10-13 paper 1

Nigel Annett, Managing Director  
Mike Davis, Planning and Regulation Director

**4. Water policy in Wales – Evidence from Severn Trent Water (10.15 – 11.00)** (Pages 24 – 27)  
E&S(4)-10-13 paper 2

Andrew Fairburn, Head of Government Relations

**Break (11.00 – 11.10)**

**5. Water policy in Wales – Evidence from Consumer Council for Water (11.10 – 11.55)** (Pages 28 – 37)  
E&S(4)-10-13 paper 3

Diane McCrea, Chair, Consumer Council for Water Wales Committee

Tony Smith, Chief Executive

**6. Motion under Standing Order 17.42(vi) to exclude the public from the meeting for item 6 (11.55)**

**7. Forward work programme (11.55 – 12.30)**

Lord Dafydd Elis Thomas AM  
Chair, Environment and Sustainability Committee  
National Assembly for Wales  
Cardiff Bay  
Cardiff CF99 1NA

8 March 2013

*Dafydd Elis Thomas*

### **Inquiry into water policy in Wales**

Further to your letter of 22 January and your Committee's short inquiry into water policy in Wales – particularly the implications for Wales of the Draft Water Bill – I am pleased to have this opportunity to set out some of our views on what is being considered by policy makers, both here in Wales and in England. I will be happy to expand on any of the points I cover in this submission - or indeed address any other matters of interest or of concern to your Committee - when I give evidence later this month.

### **Dŵr Cymru**

Dŵr Cymru is the sixth largest of the ten regulated water and sewerage companies in England and Wales. We serve much of Wales, Herefordshire and Deeside, providing water and sewerage services to 1.3 million household and over 100,000 business customers, looking after - on their behalf and for future generations - a long term industry employing essential infrastructure with a replacement value of around £25 billion (or around £20,000 per customer). Our revenues are £700 million and we are currently investing around £320 million each year in maintaining and improving our extensive network of infrastructure.

We operate 70 water treatment works and 850 sewage treatment works across our region and we supply drinking water and collect wastewater through a network of 27,000km of water mains and over 30,000km of sewers (now nearly doubled in size following the transfer of private sewers in October 2011). We now employ directly just under 2,500 staff having ended in 2010 the out-sourcing that was necessary for the original bond issue.

Our average household bill for the coming year is £434 - £181 for water and £253 for sewerage. This is a £7 increase on this year's average household bill and is once again the lowest increase in the industry (and this is the fourth year in which our average household bill has risen by less than inflation). Our bills cover our operating costs, our infrastructure maintenance costs and a return (ie for interest and/or dividends) on the sums for investment funded by investors since privatisation in 1989. For Dŵr Cymru, this sum now stands at £4 billion - this is our "regulated asset value", a key financial metric for the regulated utilities.

### **The water industry**

The water industry provides an essential public service (focusing on public health, and protecting our environment from pollution) that households, communities, industry and indeed modern society as a whole depends on. For households, water and sewerage services are different from other utility services like energy (water is more than just a commodity); in particular, tap water is consumed and its quality and safety has always to be of paramount importance.

This is a capital intensive industry and the cost of financing investment comprises a large proportion of the total cost of providing water and sewerage services. Twenty four years on from privatisation - during which time the water industry in England and Wales has invested some £100 billion - the regulatory allowance for interest and dividends now absorbs a third of the average household bill. With continuing investment, this proportion will rise. It follows that small changes in the allowance for interest and dividends (which in turn reflects investors' assessment of the risk of investing in the regulated water sector) will have a large impact on the total cost. A 1% increase in the overall cost of capital would increase customer bills by 5% (and vice versa of course).

It is a long term industry where decisions taken today impact future generations (just as we rely on the good decisions made by our predecessors and have to live with the bad ones). In addition, most capital invested is "sunk" and cannot be re-allocated (hence the

worry about “stranded assets” and also household customers paying more if say some large customers manage to use “competition” to pay lower prices which cover only marginal costs”<sup>1</sup>). Capital turnover is low and the likelihood of a “technological revolution” (as in telecoms for example) that would fundamentally change the nature of the water industry is unlikely. This makes the water industry – potentially – stable, predictable and low risk from an investor’s point of view compared with other sectors.

The public service nature of the industry (certainly for households) means that the public interest is served by the cost being recovered fairly; there is no single “right price” for providing a water and sewerage service and the legitimate cross-subsidies resulting from any basis (volume, location, investment, ability to pay etc) that might be used to calculate a “fair price” are significant.

It follows that there are good reasons why the water industry in most parts of the developed world is integrated (“source to tap” and “bath to bay”) and holds a monopoly position with only one provider of network infrastructure (but meaning that customers cannot choose between competing water and sewerage enterprises); it allows the public interest to be served, water quality and public health to be the first priority, and low cost long term funding for investment to be secured.

### **The Glas Cymru model**

The ten water and sewerage companies privatised in 1989 remain integrated monopoly suppliers of water and sewerage services. Ownership has changed hands a number of times since then and much of the industry is now owned privately with just three companies still having their shares listed on the London Stock Exchange (see attachment 1).

Privatisation of the water industry has delivered very big improvements in cost efficiency and has enabled record levels of investment without government subsidy (to date) which has transformed water and environmental quality standards; customer bills have risen but by considerably less than would have been the case had the industry remained in the public sector (Ofwat put this saving at £100 per household customer). Research shows however that customers do not recognise this good outcome because (when asked for an opinion) they generally do not like the idea of their local monopoly water supplier being “owned and run for profit”; legitimacy suffers and costs are higher

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<sup>1</sup> This is one of the key points made by Professor Dieter Helm in his critique of the Draft Water Bill – see <http://www.dieterhelm.co.uk/node/1342>

as a result. It is perhaps worth adding here that “competition” in the energy sector has not solved this problem with legitimacy.

The Glas Cymru model is based on the premise that the advantages that came with privatisation could be retained – access to capital, a focus on performance, commercial drive, cost efficiency and so on - while legitimacy with customers could be restored by adopting a “not for profit” ownership model. A regulated monopoly has the important advantage of providing long term bond investors with more certainty and this translates into a lower cost which in turn is the key to keeping the total cost – and therefore customer bills - as low as possible. Under the Glas Cymru ownership model, this financing efficiency remains with Dŵr Cymru for the benefit of our customers – either through lower bills and social tariffs or through additional investment.

Using the financing efficiency that could be secured by the Glas Cymru model to make customer bills more affordable while not cutting back on essential investment and standards was at the heart of the original transaction in 2001. Research tells us that around 30% of our customers spend 3% of disposable income on their water and sewerage bill while around 14% spend more than 5%. Keeping our bills affordable must remain the priority and the key to doing so in this capital intensive industry is continued access to long term efficient financing of investment.

With the Glas Cymru form of ownership, the interests of investors and customers are aligned. Bond investors want improving credit ratings which in turn lead to lower interest costs when new funds are raised for investment - then these lower funding costs are in turn key to keeping total costs down and customer bills affordable. Affordable bills and high standards improve legitimacy and reduce regulatory and political risk which in turn supports credit ratings. We refer to this as the “Glas Cymru virtuous circle” (see attachment 2).

#### **Dŵr Cymru under Glas Cymru’s ownership**

Glas Cymru (a company limited by guarantee) acquired Dŵr Cymru for £1.9 billion in May 2001. We funded the purchase with an issue of bonds (with a range of maturities and ratings) which were bought by pension fund and other long term UK investors. The initial bond issue was nearly two times over-subscribed and remains the largest ever non-government backed bond issue completed in the UK. Since 2001, we have raised a further £1 billion in bond (or equivalent fixed interest) finance to fund investment or to re-finance earlier funding.

Gearing (ie the ratio of total debt to regulatory asset value) has fallen from 93% at the time of the acquisition in 2001 to below 65% now; our financial reserves or “customer equity” (ie the difference between the regulatory asset value of £4 billion and our total debt today of £2.5 billion) is now £1.5 billion (or around £1,000 per customer). Because of this steadily improving financial position, Dŵr Cymru has had six credit rating upgrades since 2001 and our rating is now the highest in the entire utilities sector (see attachment 3).

One worry that was expressed at the time of the Glas Cymru acquisition was that as a result of its governance structure and lack of shareholders driving returns, Dŵr Cymru would not be as driven to improve operating cost efficiency. Our track record since 2001 suggests otherwise; Ofwat’s latest report shows that Dŵr Cymru has been the only company to have reduced its operating costs since 2000 (see attachment 4).

The financing and operating cost efficiency savings stay with Dŵr Cymru for the benefit of our customers. Customer bills in 2015 will be lower in real terms (ie after adjusting for RPI inflation) than they were in the year before Dŵr Cymru became “not for profit” (see attachment 5); in the past we have paid “customer dividends” of £150 million. We also fund help for nearly 50,000 household customers who are really struggling to make ends meet with a range of social tariffs and other assistance; this is more help than that offered by any other water company and is now supported by recently published Welsh Government Social Tariff Guidance which we welcome. In addition, while keeping bill increases to below the rate of inflation we have accelerated investment - to deliver high value improvements to our infrastructure for the benefit of our customers and our environment - and we will now invest a total of £1.5 billion in the current five year period 2010-2015 (see attachment 6); we estimate that we are employing currently more than 10% of the entire construction sector in Wales.

When we set up Glas Cymru, I think we underestimated the importance of the ownership model for the culture of our organisation. Being owned on behalf of our customers has had a real impact on day to day customer service as well on the way in which our teams across the business behave and deal with all the issues and challenges we face every day. Household customer satisfaction is currently running at over 90% (see attachment 7) while our own tracking research shows that business customer satisfaction is just short of 90%. I now think it looks likely that the number of written thank you letters and emails we get may well exceed the number of written complaints this year.

This is all down to a lot of hard work, a host of customer service improvement initiatives backed by investment in systems and training, but I judge that the most important ingredient in what is now a sector leading performance for customer service is the culture that we have in Dŵr Cymru which puts our customers first. We have recently carried out a Staff Engagement Survey and 83% of our colleagues are “proud to work for Welsh Water” while 80% agree with the statement that “Welsh Water puts its customers first” (see attachment 8).

The water industry is particularly measureable and we (and others) are able to compare and judge our performance on many of the things that matter most for our customers and for protecting our environment. To help us focus on what matters we have a “Performance Scorecard” (see attachment 9) which includes a sub-set of the key measures of performance; this Scorecard is updated every month and reviewed by the Board (alongside other performance reports) and shared with staff across the business. The “target” level of performance on the Scorecard is what the leading companies in the sector are able to achieve. The Scorecard is used to calculate half of variable pay for all staff, the other half being cost efficiency; in this way we are able to say to our colleagues that if our customers have had a good deal then we should share in that good outcome (rather like the John Lewis Partnership).

Overall, for the current year, we judge that our performance overall ranks us close to top of the industry league table on the basket of measures that matter for our customers and for our environment - whilst again having the lowest bill increase in the sector .

Proper and effective governance has been a feature of Glas Cymru’s ownership of Dŵr Cymru since the start. As well as being tightly regulated, we have a constitution that requires a majority of the Board to be independent of executive management; currently the Board, chaired by Bob Ayling, comprises seven non-executive directors of high standing plus the three executive directors. In addition, we have 60 Members from all walks of life who hold the Board to account for the performance of Dŵr Cymru and all other corporate governance matters; we meet with our Members at least twice every year (including our Annual General Meeting each July) and keep them informed on matters of interest or concern between meetings. Jonson Cox, the recently appointed Chair of Ofwat, has this week published<sup>2</sup> a note setting out his concerns about the industry, the governance of the “highly leveraged” companies in particular; these concerns do not apply to Dŵr Cymru.

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<sup>2</sup> [www.ofwat.gov.uk/mediacentre/speeches/prs\\_spe20130305jcrae.pdf](http://www.ofwat.gov.uk/mediacentre/speeches/prs_spe20130305jcrae.pdf)

## **Draft Water Bill**

If one accepts that “public service plus monopoly plus for profit” is a mix that will always suffer from a lack of legitimacy, then one way to look at the Draft Water Bill is that it aims to deal with the fundamental problem by bringing more competition into the water sector and diminishing, where possible, the “monopoly” nature of the industry. By contrast Glas Cymru has sought to restore legitimacy by removing “for profit” from the mix.

The Draft Water Bill sets out to allow and encourage new entrants - licenced by Ofwat - to compete with incumbent water companies at either end of the “source to tap” and “bath to bay” supply chain. In the first instance, all non-household customers (in England for now) will be able to choose between competing water “retailers” (as in the energy sector) and the incumbent water company will sell water at a wholesale price to the retailer. Looking further ahead (2019?) and under proposals for “upstream competition”, an existing water company might be required to take treated water from a new entrant and transport that water - mixed with other drinking water already in the water mains network - to another new entrant’s large retail customer.

This sort of major re-shaping of the water industry has not been tried anywhere else. The thinking behind it is that as well as improving legitimacy, a disaggregated and competitive water industry will be more innovative, more customer focused, more cost efficient and better equipped to deal with the challenge of climate change and growing populations.

What is our position?

First of all, we start from a different position having put ownership of the water industry in the region served by Dŵr Cymru into a “not for profit” structure with all the advantages for our customers that this has delivered to date.

Second, we are very concerned about the risks that come with undermining “source to tap” responsibility for the quality of drinking water at the tap; as an integrated industry, we are equipped and able to deal with water quality incidents quickly without having to argue with anyone else as to who might be responsible. Drinking water is not like energy where one supplier’s gas or electricity is no different from another supplier’s; drinking water is consumed and its quality and indeed safety can be compromised in all sorts of ways.

Third, there are good public policy reasons why the cost of water and sewerage should be averaged so that expensive-to-serve customers (because of location or ability to pay for example) should not pay more than cheap-to-serve customers; experience elsewhere tells us that with competition (and “cherry picking”) legitimate and important cross-subsidies are unwound (poor customers on prepayment meters paying more than direct debit customers in energy for example). This worry about “de-averaging” was one of the key conclusions from the recent Efra Committee pre-legislative scrutiny of the Draft Water Bill.<sup>3</sup>

Fourth, recent experience suggests that the “level playing field” may well be tilted to encourage new entrants at the expense of our customers; we have recently responded to a consultation by Ofwat on its proposal to grant an “inset” to serve a new development at Coed Darcy the effect of which would be to increase our customer bills so that the new entrant could secure an additional profit of £600k annually (see attachment 10). Related to this, the water industry regulator for Scotland has shown how “upstream competition” could lead logically to stranded assets and higher total costs.<sup>4</sup>

Fifth and crucially, the prospect of a disaggregated industry with more competition would increase uncertainty for long term investors and increase the cost of funding continuing high levels of investment. More than ever, the key to delivering a high quality and resilient service for customers in the years ahead at an affordable cost - including dealing with the challenge of climate change - is continued access to long term funds at low rates of interest. This is what the Glas Cymru model achieves.

Remaining a regulated and integrated monopoly is not without risks of course, the main ones being complacency, inefficiency, caution, self interest and so on. These risks are real but I think can be mitigated to a large degree by regulation, by benchmark “comparative competition” - with the Drinking Water Inspectorate, the Environment Agency (and soon to be Natural Resources Wales) and Ofwat published league tables showing what “good, middling and bad” looks like - by good governance (the Board of Dŵr Cymru will change executive management if performance falls short) and by a good customer focused culture, top to bottom.

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<sup>3</sup> [www.publications.parliament.uk/pa/cm201213/cmselect/cmenvfru/674/67402.htm](http://www.publications.parliament.uk/pa/cm201213/cmselect/cmenvfru/674/67402.htm)

<sup>4</sup> [www.watercommission.co.uk/UserFiles/Documents/TechnicalNote2.pdf](http://www.watercommission.co.uk/UserFiles/Documents/TechnicalNote2.pdf)

This is not to say that we have closed our minds to the sort of change envisaged by the Draft Water Bill and the agenda being promoted by Ofwat. But we think it is important that the changes being mooted do - demonstrably - improve on the current model <sup>5</sup>we have adopted for the water industry in the area served by Dŵr Cymru.

As you know, the Welsh Government has taken a more cautious approach to the changes being put forward in the Draft Water Bill and water policy in Wales is a mostly devolved matter. There may well be a case for allowing the "not for profit" regime in Wales to compete with the "for profit" regime in England, in whatever way that evolves. For our part, we would relish taking on that challenge to prove that "not for profit" ownerships of the water industry not only chimes with the instincts of customers but also delivers better outcomes for both today's customers and future generations.

*Yours sincerely*

*Nigel Annett*

Nigel Annett

# The regulated water industry in England and Wales

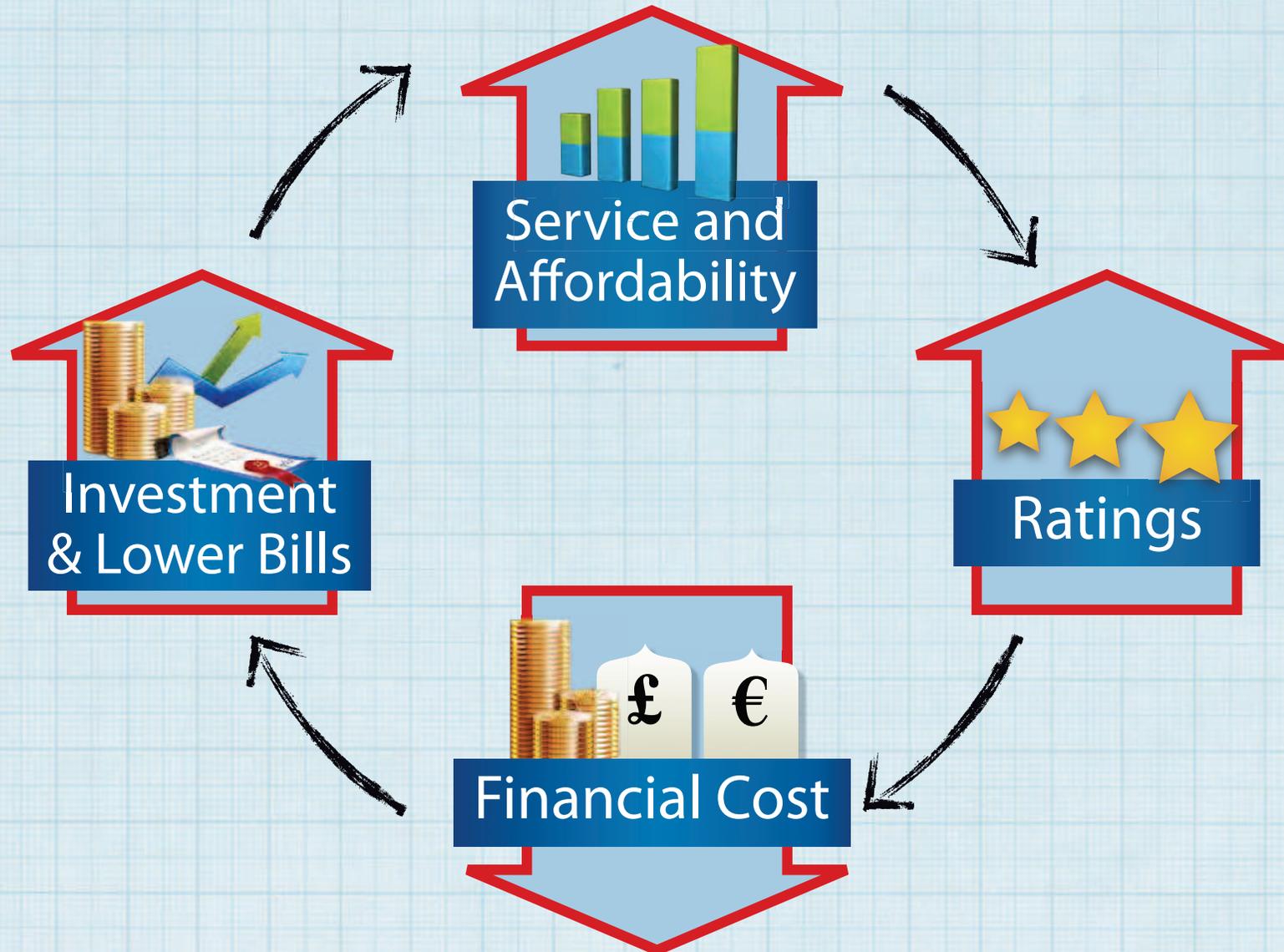
- Privately owned
- Publicly owned
- Customer owned



- ▶ Privatised in 1989 - doubling of investment and rising customer bills
- ▶ RCV of water sector now £40bn - less than £10bn at privatisation
- ▶ MEA valuation now over £300bn
- ▶ Sector remains cash-flow negative (though assets still getting older)
- ▶ Financing accounts for third of bill
- ▶ Bills 40% higher than 1989
- ▶ Three quarters of sector privately owned - up to 30% premia paid

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# The Glas Cymru "virtuous circle"...



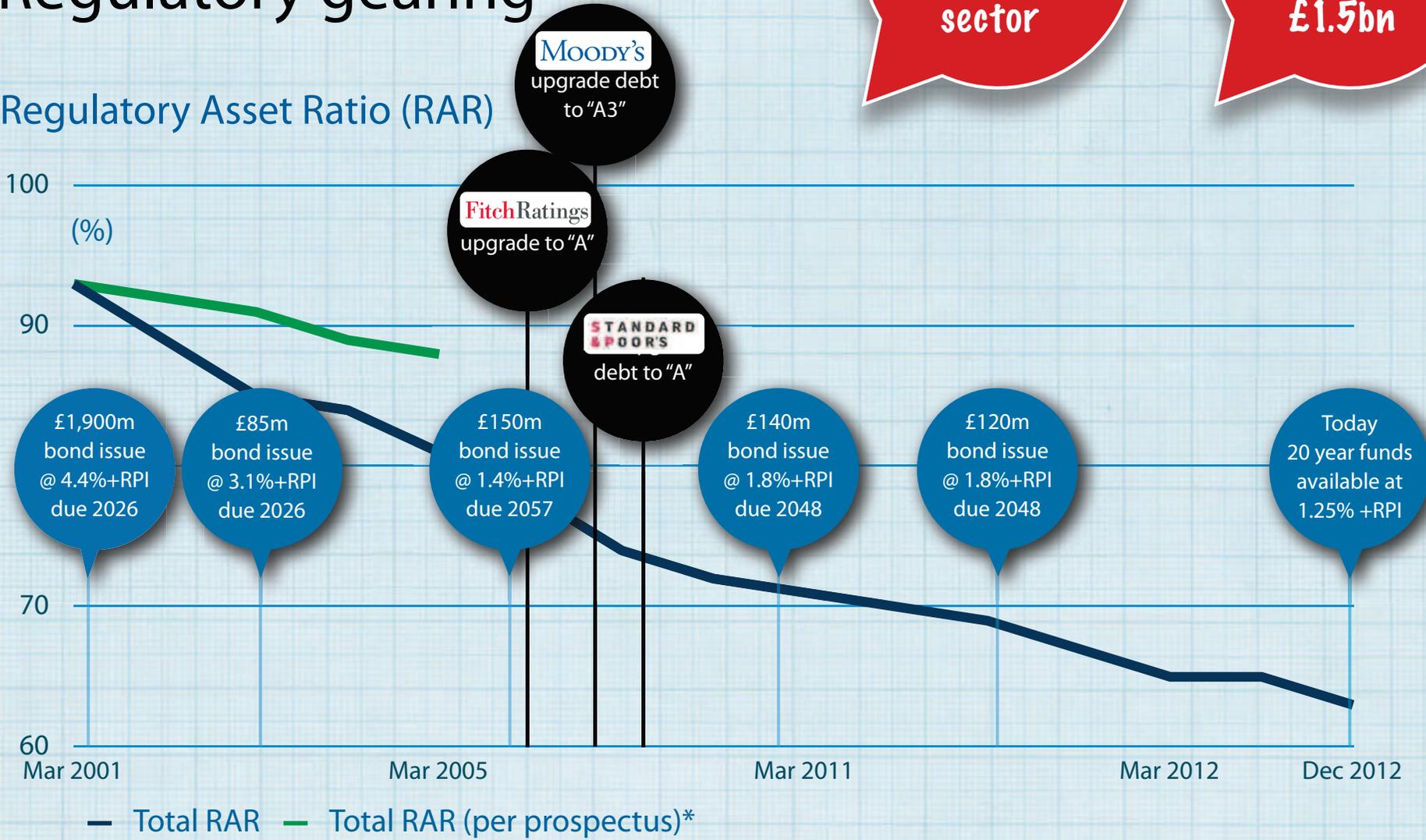
Highest credit rating in the utilities sector

Customer equity now stands at £1.5bn

# Regulatory gearing

## Regulatory Asset Ratio (RAR)

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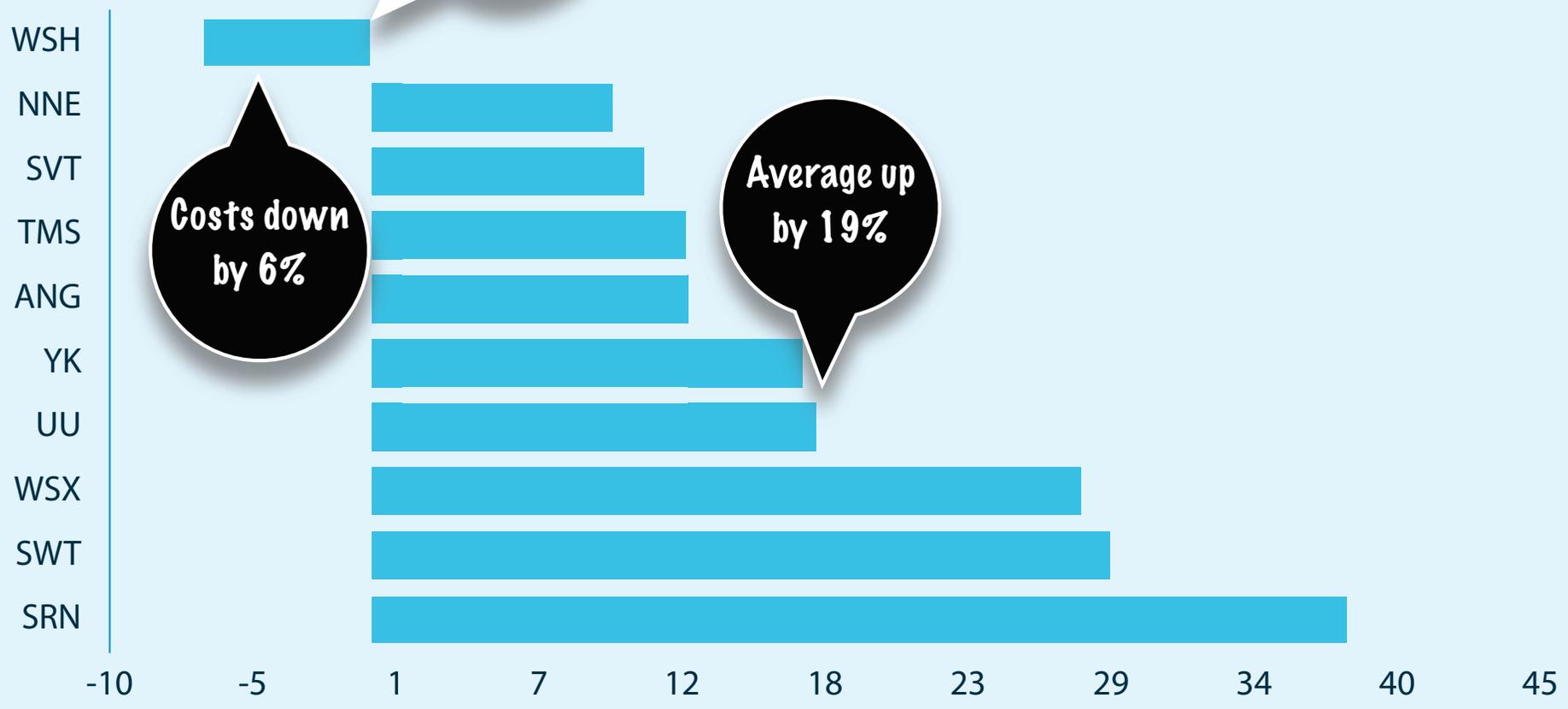


\*Prospectus to 2005 only

# Operating costs since 2001



% change in opex by region since 2001

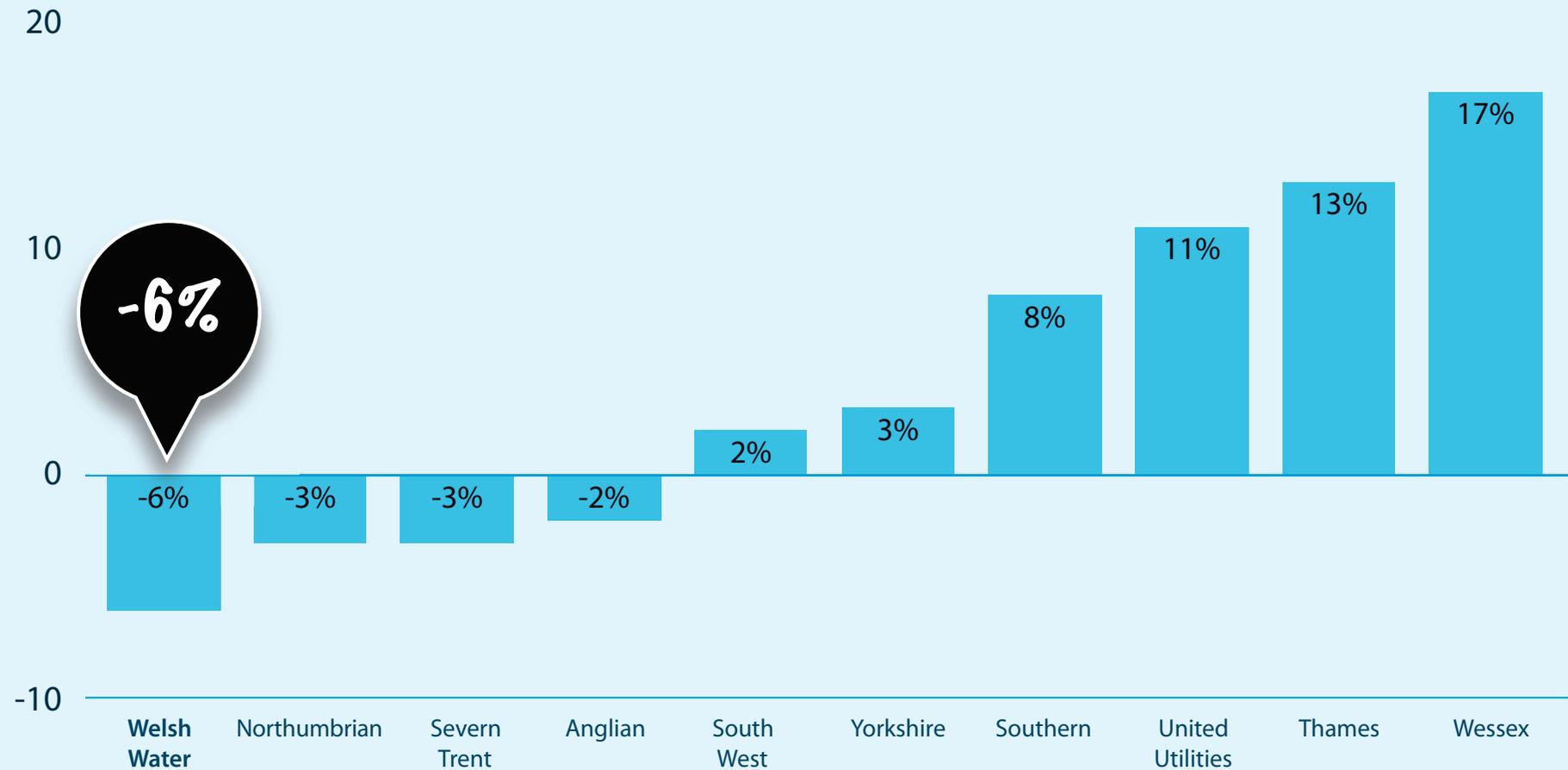


# Customer bills...

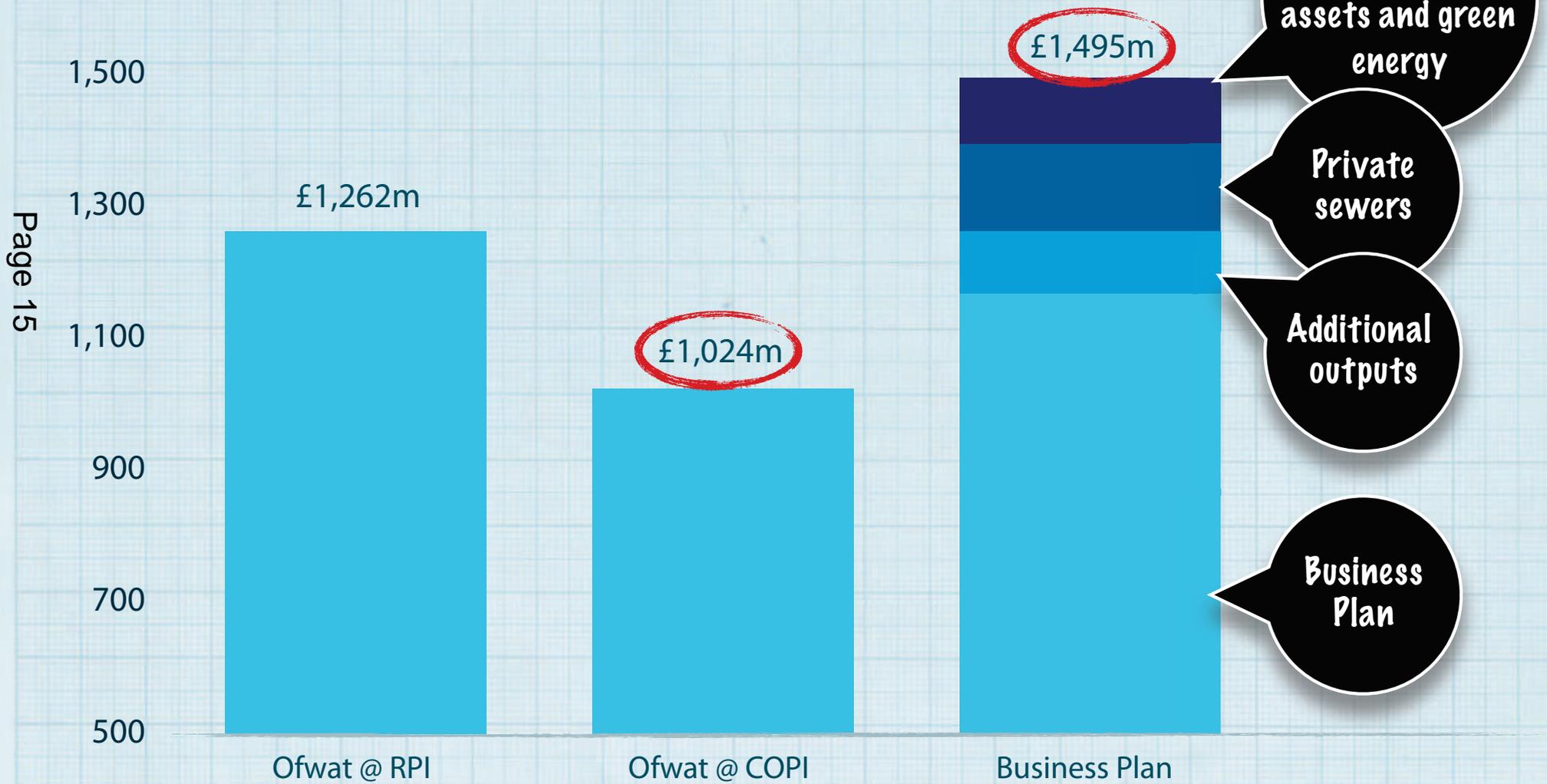


Household bills fall between 2000 and 2015...

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# Investment programme 2010-2015



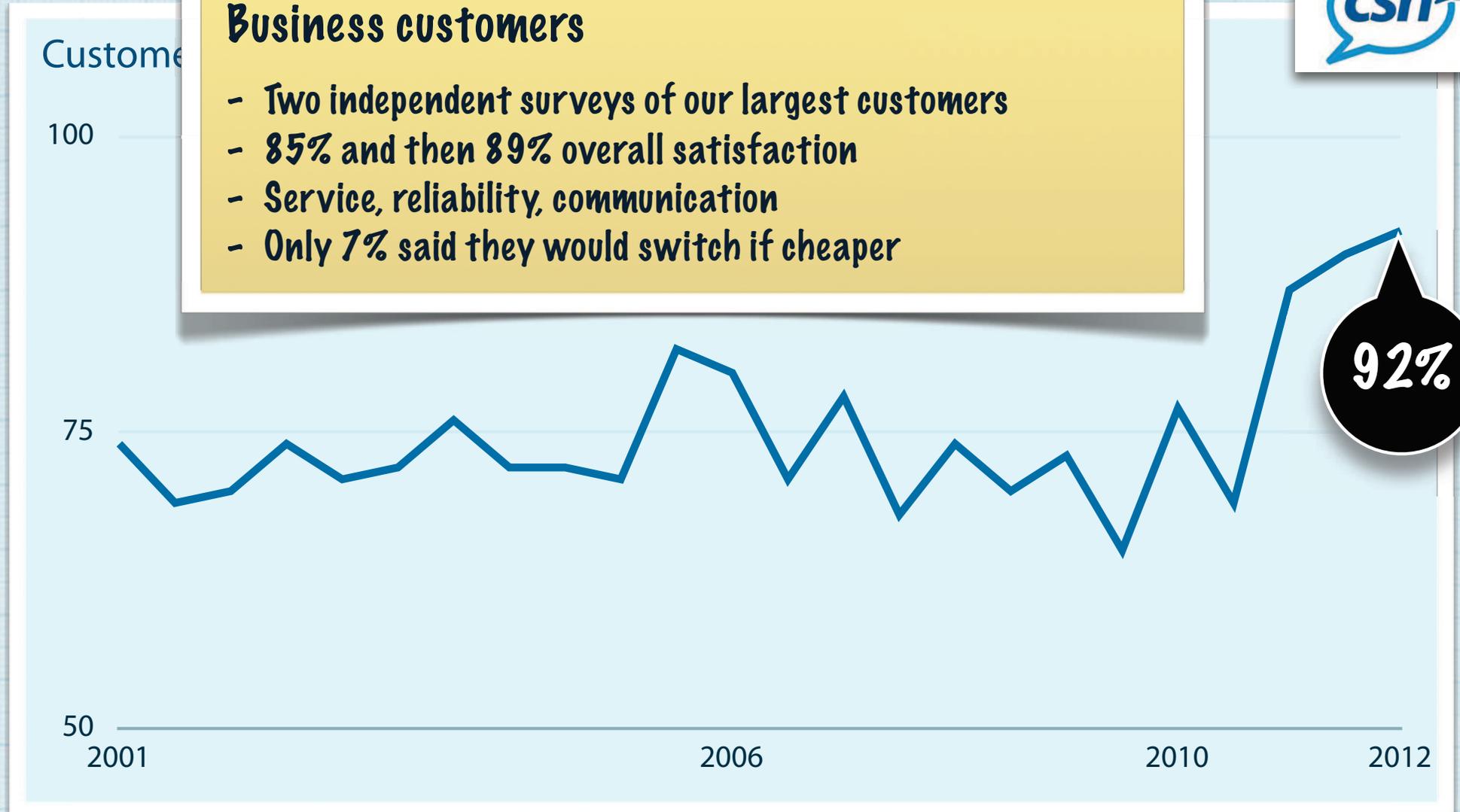
## Customer satisfaction



### Business customers

- Two independent surveys of our largest customers
- 85% and then 89% overall satisfaction
- Service, reliability, communication
- Only 7% said they would switch if cheaper

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# Employee Engagement Index

The Engagement Index is a measure of respondents' commitment to WELSH WATER. Engagement goes beyond satisfaction and can be defined as employees' willingness to invest their personal effort in the success of the organisation.

The three elements of Employee Engagement

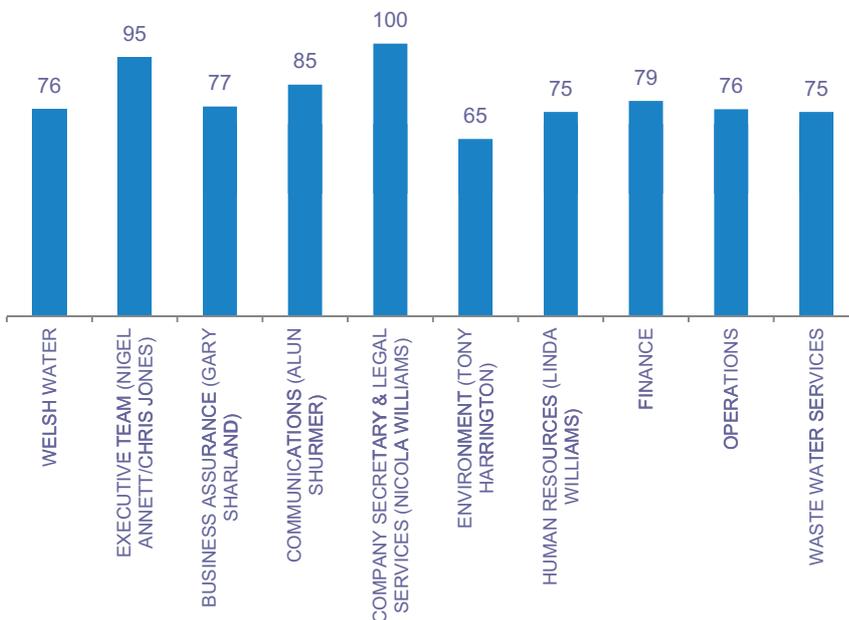
- Say** Strongly advocating the organisation
- Stay** An emotional commitment to the organisation and a desire to stay
- Strive** Providing sustained additional effort in line with organisational goals

The following four questions have been identified as being most aligned to Employee Engagement. The Engagement Index is an average of the following scores:

## Key



Response Scale                      % Positive from 2011

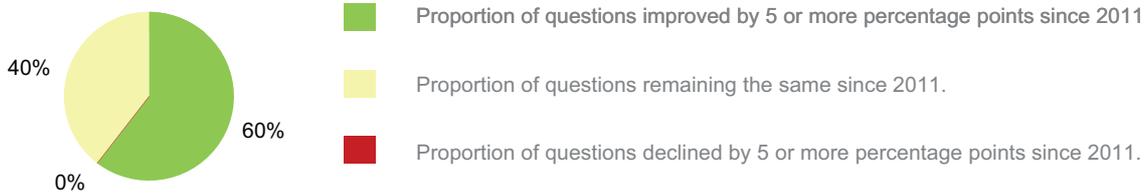


**76%**  
ENGAGEMENT INDEX

**70%**  
BENCHMARK INDEX

# Most improved and Least improved

This section shows the five most improved questions and the five least improved questions when compared against trend data (the 2011 scores).



## Most improved against Trend

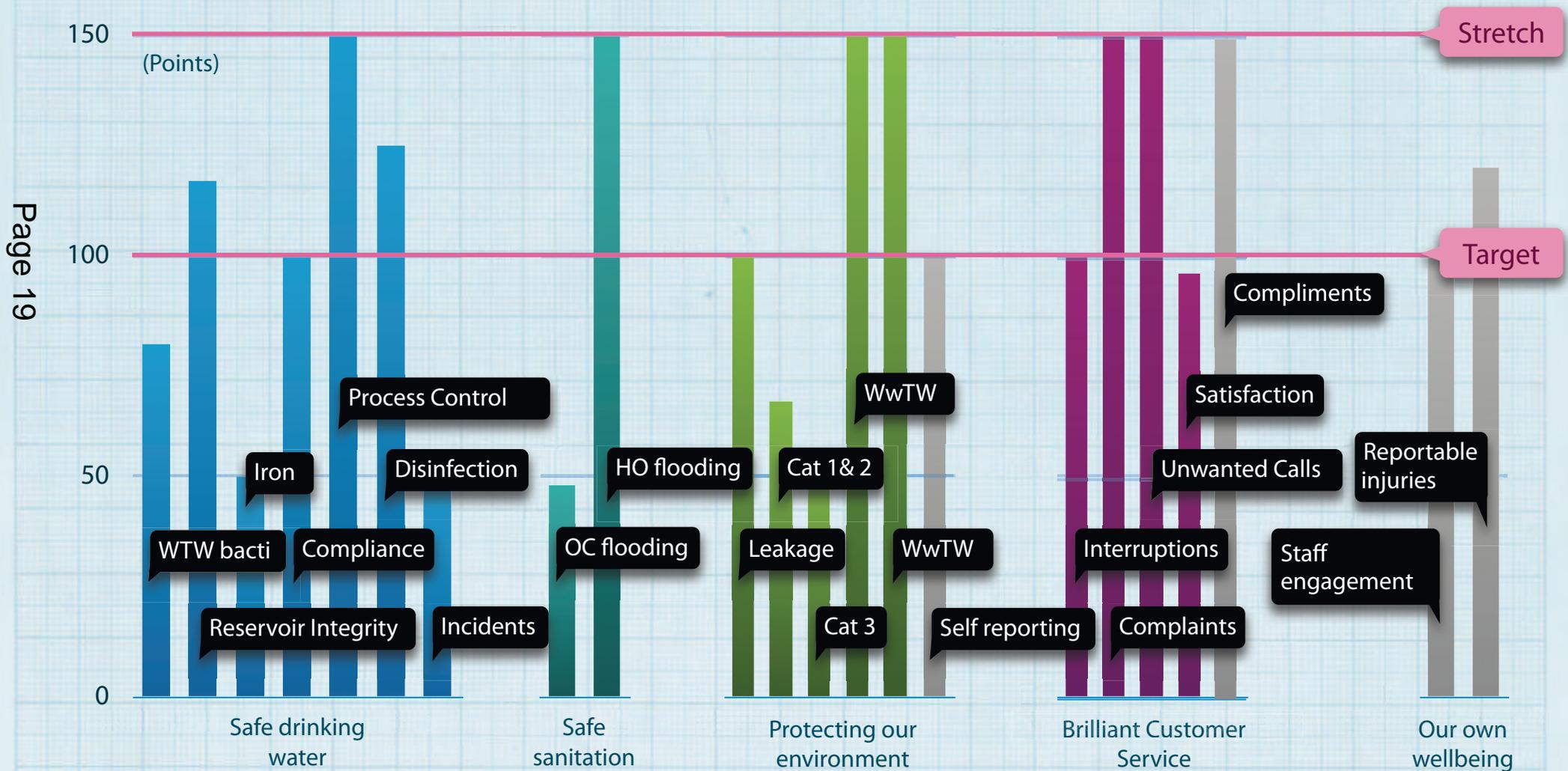
	% Positive	Variance from 2011 % Positive
14. I believe the Executive Team (DCE) has a clear plan for the future of Welsh Water	64	+16
15. Overall, I have confidence in the Executive Team's (DCE) leadership of Welsh Water	62	+15
21. At Welsh Water we are committed to developing our staff	60	+14
43. Welsh Water does a good job of promoting health and wellbeing	74	+13
32. I believe that Welsh Water puts customers first	80	+13

## Least improved against Trend

	% Positive	Variance from 2011 % Positive
3. I have been provided with reliable IT which enables me to do my job well	50	0
2. I like the kind of work of I do	87	0
7. My manager recognises and acknowledges when I have done my job well	68	0
31. I have the right level of authority I need to deliver great customer service	56	+1
8. I am motivated and inspired by my manager	57	+1



# Our performance scorecard...





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Welsh Water

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Claire Simpson  
Senior Case Officer, Markets and Economics Division  
Ofwat  
Centre City Tower  
7 Hill Street  
Birmingham B5 4UA

26 September 2012

Dear Ms Simpson

### **Proposed inset appointment for Coed Darcy**

I am writing on behalf of Dŵr Cymru in response to Ofwat's Section 8(3) Notice ("the Notice") which sets out Ofwat's proposal to vary the appointments of SSE Water and Dŵr Cymru by adding the un-served site at Coed Darcy to the area served by SSE Water and excluding this site from the area served by Dŵr Cymru. We welcome the way in which Ofwat's Notice sets out not only the possible benefits for customers that might arise from this variation but also some of the detriments. We have given this careful consideration and having weighed up all the possible benefits and detriments we conclude that this proposed variation is not in the interests of water customers and for that reason it should not be approved.

### **Future customers on the Coed Darcy site**

The service improvements that SSE Water propose to offer - which are summarised in the Section 8(3) Notice ("the Notice") dated 30 August 2012 - are small (eg call centre opening hours being an hour longer on a Saturday) and are more than cancelled out by the services that Dŵr Cymru offers our customers which SSE Water does not.

For example, our Welsh Water Assist tariff offers a charge that is capped at a level well below our average household bill (ie £250 vs £430). Similarly, our Welsh Water Direct tariff offers a £25 discount to the account of any customer who elects to have their water charges paid direct from a qualifying Department of Work and Pensions benefit. We also have Water Collect and our Customer Assistance Fund which are designed to help least well off households customers afford their water and sewerage bill. Currently, we help nearly 45,000 of our household customers to afford their water and sewerage bill.

We also offer a number of other customer service innovations that SSE Water do not offer currently. Examples include “live chat” with a member of our customer service team which is currently used by some 500 customers each month (and rising) and an automated 24 hour payment service. When there is a water supply problem – for example a burst water main – we send a text within 30 minutes of detecting this to customers who might be affected to let them know that we are aware of the issue and when the service will be restored; to date this year we have sent over 135,000 texts and this is a highly valued customer service that is not offered by SSE Water. In all our dealings with customers, we as a matter of course offer to communicate and do business in either the English or the Welsh language (and we do not have any customer service staff located outside of our region).

More generally, we would expect that future customers on the Coed Darcy site (no having chosen SSE Water as their water and sewerage company) may well be concerned that the responsibility for the quality of their water supply is split between two separate water companies and that they are “one step removed” from the producer of their tap water. Future customers may perceive that they would be better supplied by a water company that is locally-owned and locally-based and they may well be concerned (because SSE Water is subject to policy set by Defra) about being denied policies and standards set by the Welsh Government that are not available in England even though they live in Wales (for example, mandatory build standards come into force in Wales on 1 October this year whereas as yet there is no date for the same to happen in England). These add up to significant and addition perceived detriments which have to be taken

into account in considering whether the variation is in the interests of future customers on the Coed Darcy site.

### **Customers of Dŵr Cymru**

The Notice does point out that the proposed variation is not cost free and that existing customers of Dŵr Cymru will be an estimated 50p per household per annum worse off when the site is fully developed - or around £650,000 per annum in total. This is a very significant transfer of value from our customers to SSE Water and/or the developer of the Coed Darcy site (but not under the proposals set out in the Notice to future customers on the Coed Darcy site). We are aware of further possible inset appointments that are being pursued by SSE Water which if approved by Ofwat would increase further this very real and significant detriment to our customers.

### **Conclusion**

Having considered carefully the possible benefits and likely detriments we have to conclude that the proposed variation as set out in the Notice is not in the interests of either our existing customers or the future customers on the Coed Darcy site.

Given the significance of Ofwat's policy on inset appointments for the future shape and ownership of the water industry in Wales, the likelihood of many more inset appointments over the coming months and years and the impact this could have on customers, we consider that it would be timely for Ofwat to test its policy with customers more widely and confirm or otherwise that customers in Wales endorse its policy. In this way customers' views will be heard and Ofwat will be able to respond to their preferences.

We could also test whether our customers generally would support Dŵr Cymru offering, for example, a separate tariff for customers in newly developed areas and which would be set below the standard household tariff (available for a number of years, possibly on a sliding scale, converging towards the standard tariff). The difference between the two tariffs would reflect the cost difference between supplying a new household on a new development and supplying an existing household. This would have the advantage of removing the additional

surplus that is available to an inset appointee and ensure that it is customers who benefit from the lower cost of serving a new development. With customer endorsement and Ofwat approval, such a tariff would mean that the potential inset appointee would have to challenge the incumbent water company on the basis of a "level playing field" and show that the profits which the inset appointee would hope to earn come from giving customers a better service or from genuine productive efficiency gains.

The same outcome could of course be achieved by Ofwat setting price limits for the site in exactly the same way as it sets price limits for Dŵr Cymru and other water companies - ie by setting price limits to reflect the actual costs of serving the new site. The current approach - in which the inset appointee is allowed to charge the same as the incumbent water company's cost-to-serve across its entire region, even though its costs are materially lower - does not constitute a "level playing field" and as such does not serve the public interest.

I am copying this letter to Prys Davies at the Welsh Government, Diane McCrea at the Consumer Council for Water Wales, Milo Purcell at the Drinking Water Inspectorate and Chris Mills at Environment Agency Wales.

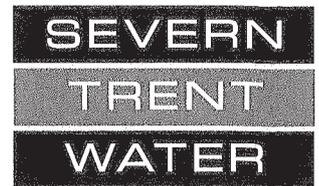
Yours sincerely



**Mike Davis**

**Regulation Director**

# Agenda Item 4



**Severn Trent Water**

Committee Clerk  
Environment & Sustainability Committee  
National Assembly for Wales  
Cardiff Bay  
CF99 1NA

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01 March 2013

Dear Sir/Madam,

Thank you for the opportunity to provide evidence to the Environment and Sustainability Committee's inquiry into water policy in Wales.

In this submission, we suggest ways in which water affordability issues could be approached in a way that maintains environmental improvements and long term investment. We also address the question of different market regimes in England and Wales. We begin, however, by explaining the role of Severn Trent Water.

## **About Severn Trent Water**

Severn Trent Water (STW) provides water and waste water services to the people of mid-Wales. We are part of Severn Trent Plc, a FTSE 100 company that provides water-related services throughout the UK and internationally.

STW is committed to providing excellent value for money for our customers. Our average combined water and sewerage bills for our customers are around £100 less than they are elsewhere in Wales.

## **Affordability, environmental improvements and maintaining investment**

The performance of water companies in Wales and England has improved significantly over the last 20 years. New challenges are, however, emerging and evolutionary change is necessary if these challenges are to be addressed successfully.

The four policy outcomes we believe should be made a priority are:

1. Keeping bills affordable.
2. Maintaining investor confidence.
3. Appropriate level of environmental investment.
4. Market reform.

These policy outcomes are complementary. All four are important to achieve social, environmental and economic sustainability. To help achieve them, we propose that the Committee should consider the following measures:

1. *Finding new ways to support customers in need.*

The typical household's water and sewerage bill is about one-third of their combined energy bill. Water poverty is therefore less prominent than energy poverty.

Despite this, and despite Severn Trent offering the lowest average bills in Wales and England, we estimate that nearly 10 per cent of our customers spend 5 per cent or more of their disposable income on water. To help these customers, we provide the traditional range of support mechanisms, ranging from Water Direct (a scheme for people receiving state benefits) to the Severn Trent Trust Fund (that helps people facing financial hardship).

We believe a broader approach is necessary, however. This is why we have started to work with the Citizens Advice Bureau, paying for them to provide general money management advice to customers who struggle with their water bills. The idea is that our customers in need will benefit from broader, more joined-up advice - and will eventually be better able to pay their bills, reducing the overall cost to all customers.

2. *Environmental legislation such as the Water Framework Directive (WFD) should be implemented in a sustainable way.*

Much progress has been made at cleaning up rivers in Wales and England over the last 20 years. The downside is that customers' water bills are higher than would have otherwise been the case.

It is estimated that further environmental improvements to meet the requirements of the WFD could cost £27 billion over the next 20 years (House of Commons, Science & Technology Committee). This would have a major impact on customers' bills, and hence the affordability of water.

Environmental benefits need not always be in conflict with customer affordability. With the right regulatory approach, environmental improvements can help reduce costs (better catchment management can, for example, reduce the cost of cleaning raw water).

It is also important to note that the WFD is explicitly designed to be implemented pragmatically, with environmental gains expected to be proportionate to their cost.

We propose the following three priority measures to help achieve the successful implementation of the WFD:

- Ministers should prioritise the environmental goals they want to see achieved and provide clear guidance to the water industry and others. It might, for example, be environmentally more beneficial for the water industry and others to be asked to improve bad and poor rivers first, rather than investing in making all rivers 'good'.
- Ministers should provide guidance about the pace at which they would like to see further improvements made. A balance has to be struck between speed and the impact on customers' water bills.
- Ministers should confirm they expect action to be taken in the most cost-effective area (or areas).
  - In cases where there is uncertainty about which solutions will work, the lowest cost reasonable option should be tried first.
  - The legal concept of 'best endeavours' should be used to encourage much needed environmental innovation in achieving WFD objectives.
  - Natural Resources Wales should publicise evidence on the most cost effective solutions to address environmental improvements.

3. *Appropriate competition should be introduced to encourage innovation and sustainability.*

Much of the water value change is a natural monopoly in which competition is unlikely to occur. It is in the absence of competition that the sector is regulated economically. However, the introduction of competition *where appropriate* has the potential to improve service standards, enhance sustainability and reduce costs for customers. For example:

- The promotion of **retail competition** for non-household customers in Scotland and England has led to Severn Trent establishing a joint venture with Costain to meet the specific needs of business and public sector customers. Severn Trent Costain provides customers with single billing (reducing bureaucracy and costs), dedicated account managers (improving service standards) and - crucially - help with reducing water consumption and the on-site treatment of effluent (reducing long term financial and environmental costs).
- An enhanced market for **water resources** could simultaneously reduce costs and enhance sustainability. Water companies traditionally build their own reservoirs and boreholes to meet the water needs of their own regions, which does not always deliver the best outcomes for customers or the environment. An enhanced market for water resources would provide incentives for those with excess water (including some farmers at certain times of the year or, for example, National Rail who spends resources on pumping water out of tunnels) to sell this water to water companies.
- A by-product of sewage treatment is **sewage sludge**, which can be used as a fertiliser and to generate energy. If this market was de-regulated economically (but not environmentally) it would stimulate its growth and raise the prospect of generating significantly more sustainable energy.

#### **Different market regimes in Wales and England**

Whilst Severn Trent serves the people of mid-Wales, our operations in the UK are mainly in the Midlands region of England. We are therefore regulated economically under the rules governing England. Operating to a single set of rules enables us keep costs down, which results in lower prices for our customers in Wales.

The stakeholders who are perhaps most directly affected by different market arrangements in Wales and England are UK-wide consumers of water – multi-site businesses, for example. The Committee might wish to speak to these customers about their views about competition in the non-household market.

Should you require any further information, please do not hesitate to contact me at [tony.ballance@severntrent.co.uk](mailto:tony.ballance@severntrent.co.uk). We would be happy to provide oral evidence to the committee to expand on these points further.

Yours sincerely



Dr Tony Ballance  
Director, Strategy & Regulation





## 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 in 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<sup>1</sup>.
- 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<sup>2</sup>.
- Addresses fuel, energy and water poverty together through concerted Welsh Government action, streamlined by its Tackling Poverty Action Plan<sup>3</sup> 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<sup>4</sup>.
- 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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<sup>1</sup> CCWater Annual tracking Survey 2012.

<sup>2</sup> CCWater research on cross subsidies and social tariffs, 2010, [http://www.cwater.org.uk/upload/doc/Cross\\_subsidies\\_and\\_Social\\_tariffs\\_FINAL\\_8\\_June\\_2010.doc](http://www.cwater.org.uk/upload/doc/Cross_subsidies_and_Social_tariffs_FINAL_8_June_2010.doc).

<sup>3</sup> 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.

<sup>4</sup> 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<sup>3</sup>)<sup>5</sup>.

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.

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<sup>5</sup> 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<sup>3</sup>).

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<sup>6</sup> and 69% of small and medium enterprises (SMEs) support competition in principle<sup>7</sup>, 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<sup>8</sup> would switch supplier if they could save over 10%.
- Amongst SMEs awareness of competition and change of supply opportunities is low, just 8%<sup>9</sup>.
- 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<sup>10</sup>.
- 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<sup>11</sup>.
- 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<sup>12</sup>. 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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<sup>6</sup>CCWater and Ofwat research with business customers, 2007, <http://www.ccwater.org.uk/upload/pdf/FinalReport.pdf>.

<sup>7</sup>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\\_Compensation\\_FINAL\\_11\\_June\\_2010\\_20100611143232.pdf](http://www.ccwater.org.uk/upload/pdf/SME_Compensation_FINAL_11_June_2010_20100611143232.pdf).

<sup>8</sup>Ibid.

<sup>9</sup>Ofwat and CCWater research on SMEs, 2012, [http://www.ccwater.org.uk/upload/pdf/Understanding\\_the\\_needs\\_of\\_SMEs.pdf](http://www.ccwater.org.uk/upload/pdf/Understanding_the_needs_of_SMEs.pdf).

<sup>10</sup>Ibid.

<sup>11</sup>Ibid.

<sup>12</sup>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-household 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<sup>13</sup>.
- 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<sup>14</sup>.
- Addresses fuel, energy and water poverty together through concerted Welsh Government action, streamlined by its Tackling Poverty Action Plan<sup>15</sup> 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<sup>16</sup>.
- 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<sup>17</sup>. However our research into customers' willingness to fund low income customers through bills suggests that government funding might be necessary<sup>18</sup> 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

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<sup>13</sup> CCWater Annual tracking Survey, June 2012, <http://www.cwater.org.uk/upload/pdf/annualtracking2012.pdf>;

<sup>14</sup> CCWater research on cross subsidies and social tariffs, 2010,

[http://www.cwater.org.uk/upload/doc/Cross\\_subsidies\\_and\\_Social\\_tariffs\\_FINAL\\_8\\_June\\_2010.doc](http://www.cwater.org.uk/upload/doc/Cross_subsidies_and_Social_tariffs_FINAL_8_June_2010.doc).

<sup>15</sup> 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

<sup>16</sup> 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.

<sup>17</sup> Welsh Government Tackling Poverty Action Plan,

<http://wales.gov.uk/docs/dsjlg/publications/socialjustice/120625tackpovplanen.pdf>.

<sup>18</sup> CCWater Research on Water Affordability in England and Wales, 2009,

[http://www.cwater.org.uk/upload/doc/CC\\_Water\\_final\\_report\\_1\\_Apr\\_2009\\_FINAL.doc](http://www.cwater.org.uk/upload/doc/CC_Water_final_report_1_Apr_2009_FINAL.doc),

from around £160m to £450m<sup>19</sup> but a customer-funded social tariff might only provide around £40m<sup>20</sup>.

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<sup>21</sup>. 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)<sup>22</sup>.

## 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:

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<sup>19</sup> 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](#).

<sup>20</sup> 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](http://www.ccwater.org.uk/upload/doc/Cross_subsidies_and_Social_tariffs_FINAL_8_June_2010.doc).

<sup>21</sup> 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).

<sup>22</sup> 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<sup>23</sup>.
  - 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.

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<sup>23</sup> CCWater research on cross subsidies and social tariffs, 2010, [http://www.cwater.org.uk/upload/doc/Cross\\_subsidies\\_and\\_Social\\_tariffs\\_FINAL\\_8\\_June\\_2010.doc](http://www.cwater.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*<sup>24</sup> ‘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.

**For further enquiries please contact:**

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<sup>24</sup> Link [here](#) to Defra and Welsh Government review.