



## **Water White Paper Objectives and their fulfilment**

Submission to the Environment, Food and Rural Affairs Committee from

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2. These comments relate mainly to chapter 5 of the White Paper, and deal with issues of affordability, consumer preferences and consumer representation.

### **A. Affordability**

3. Affordability is likely to be a very acute problem in a small number of cases, but the White Paper's proposals are unlikely to be the best way of addressing them. The proposal to subsidise all bills in the south west by £50, like all universal schemes, suffers particularly from errors of inclusion – many bill payers in the south west who will receive such help do not require it. The benefit is untaxed, which seems particularly inappropriate for recipients who have sufficiently high income to pay higher rate tax.
4. It is not clear that the water companies are in the best position to assess social need at a local level, as the White Paper claims. Such expertise and responsibility surely lies with social security offices whose professional task is to assess need. Water companies are not well placed to undertake these tasks.
5. Moreover from the perspective of those suffering affordability problems there is a real danger of creating a complex system of entitlement for an individual household across different industries (qualification for social tariffs in energy, water, telecoms, broadband etc) which is both difficult to negotiate and poses a very real danger of creating a piecemeal poverty trap. If income rises, not only are benefits lost, but so may be an array of individual utility-related concessions. Encouraging such complexity seems particularly perverse when the government is trying to simplify the tax and benefits system. In this context the proposal for co-ordination across utility sectors

and with debt advisors is a more fruitful avenue. The provision for interim measures while households adapt to their different circumstances is welcome, as long as a 'sunset clause' is included so that the subsidy is clearly temporary.

6. The White Paper notes that bad debt adds £15 a year to bills (para 5.18), including those of low income households for whom such an addition is a real hardship. Social tariffs will also add to the bills of those who do not qualify (or claim) for them, with similar implications.

#### **B. *Separation of retail from wholesale***

7. As the White Paper acknowledges (para 5.45) the only way to remove risks of discrimination are to force separation. There is persuasive evidence<sup>1</sup> from other sectors that without such separation there is market distortion and consumers obtain less benefit. The White Paper prefers the route which poses lower risk to investment (para 5.34), but this will almost inevitably result in lower rewards.

#### **C. *Protecting and representing Water consumers***

8. It is not clear that new codes of practice are needed on mis-selling: rather the existing law on fraud and mis-representation should provide sufficient protection if adequately enforced. The extension of financial penalties for infringements in guaranteed standards of service (para 5.63) is welcome in this context.
9. Ofwat's Future Price Limit proposals include increased involvement of consumer representatives, with companies being given the responsibility for ensuring that customers (particularly those with no choice of supplier) are adequately consulted within the price setting process. While there are serious doubts about how such a system will work in practice, this seems an inappropriate time to transfer the advocacy and complaint handling powers of CCWater to Citizens Advice. CA would have a vastly expanded role and duties, as well as those inherited from other sectors, at a time when the role of consumer representation will play a major and unproven role at the heart of the regulatory process.

#### **D. *Using water wisely***

10. Subsidising prices undermines one of the chief aims of the White Paper, to encourage sustainability. The price of water is an important indicator of its worth, and incentive to reduce consumption appropriately. Chapter 6 contains exhortations and

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<sup>1</sup> See for example [Does ownership unbundling matter? Evidence from UK energy markets.](#) Intereconomics, 42 (6). pp. 297-301 by Stephen Davies, Stephen and Catherine Waddams Price (2007)

advice on using water wisely, but evidence shows that prices are likely to be a much stronger incentive, as the effect of metering on levels of consumption indicate<sup>2</sup>.

11. The White Paper notes that some householders eschew metering because they do not want the uncertainty in bill size which it might introduce. Research<sup>3</sup> shows a range of attitudes among consumers, from wanting control to seeking (predetermined) certainty. The latter is met by a tariff with a very large fixed element (unmeasured water being the extreme case) and the former by a tariff in which the bill is almost entirely determined by usage, with very little fixed element. Costs should form the basis of devising efficient tariff structures and levels which provide appropriate incentives for use of water.

12. While differently structured tariffs could offer incentives to save, for example by introducing a time of year or time of day element, there are dangers of introducing optional tariffs for customers who have no choice of supplier. If some consumers transfer to the 'optional' tariff and so reduce revenue to the company, others may see their prices rise as a result to fill the revenue gap<sup>4</sup>. Care therefore needs to be taken to ensure that introduction of optional tariffs should not indirectly disadvantage or discriminate against particular groups of consumers. Of course this does not mean that the basic tariff should not reflect the pattern of costs. Transitional tariffs would be appropriate to help customers adapt to any major changes in tariff structures.

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<sup>2</sup> See for example [Consumer Choice in the Water Sector](#) by Catherine Waddams and Kerry Clayton - report published by Ofwat as part of Future Regulations project (June 2010)

<sup>3</sup> See survey in Waddams and Clayton above

<sup>4</sup> For a review of evidence in this area see [Benefits and Costs of Introducing Tariff Choice in Uncontested Markets - A Report for Ofwat](#) by Kerry Clayton, Catherine Waddams and Catherine Webster.