

Call for input – Improving the WaterSure Financial Support Scheme

Hafren Dyfrdwy Response

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Summary of response

We welcome this opportunity to feed into CCW's recommendations for the WaterSure scheme. We think it is the right time to reconsider some aspects of WaterSure, given the changes that have occurred since its introduction 25 years ago.

We think that WaterSure should be put on a statutory basis in Wales, as this would make the regulatory landscape clearer. We've had some discussions with Welsh Government about the ways that WaterSure could be improved if or when this is enacted.

Some of the changes under consideration would involve little or no increase in the level of cross-subsidy provided through WaterSure, and we believe these would be acceptable to customers:

- **Expanding qualifying benefits** to include non means-tested disability benefits, which we currently offer through our WaterSure Plus tariff.
- **Signalling medical eligibility more clearly.** We think that it would be helpful to communicate the principle that WaterSure provides support for customers who have a medical need for additional water usage with clear examples, making it clear that this was not an exhaustive list.
- **Changing the cap to a company average metered bill,** provided this average excludes the impact of social tariffs and WaterSure itself.
- **Replacing the cap with a percentage or fixed discount.** Given the Government's goal of reducing average consumption to 110 l/p/d, we think that options which give WaterSure customers some incentive to conserve water usage should be considered.

In general, we do not support the options that would lead to large increases in the level of cross-subsidy through WaterSure. Our regular customers are already being asked to fund an increase in social tariffs. Our research for PR24 asked customers whether they were prepared to increase the level of cross-subsidy to customers who struggle. As a result of this exercise, our plan proposes to increase this from £7.85 to £22.85 (in 2022-23 prices). While a smaller majority of customers would have supported a higher value, the increase in regular bills will also push some customers that are just about managing into water poverty so we have to strike a balance. Without funding from an external source it is unlikely that HD will be able to resolve water poverty through tariff changes because regional incomes are relatively low and they are growing far less quickly than water charges. We think the following options would lead to a more significant increase in the burden on other customers:

- **Removing the requirement to be in receipt of benefits,** which could also result in high income households receiving subsidies.
- **Replacing the benefits entitlement with an income threshold.**
- **Reducing the number of children needed to qualify.**
- **Extending support to larger multigenerational households,** which also has other practical issues with determining which adults are dependent and resident in a home.
- **Changing the cap to the lower of a company or industry average,** which also has some practical issues since we do not know the industry average metered bill when fixing our charges.
- **Introducing a single occupier bill cap,** which also has significant issues with data validation.

We hope this is helpful and would be happy to discuss our views further with CCW.

Responses to options considered by CCW

A. Low income

1. Remove the requirement for claimants to be in receipt of benefits

We do not support the removal of this requirement. As CCW notes, this would increase the cost of the cross-subsidy that is funded by other customers and would result in some high-income families being supported by households that are just about managing.

2. Replace benefit entitlement with a household income threshold

We think that social tariffs should be the vehicle for supporting low-income households and this change would create a substantial overlap with what each is attempting to achieve. The current rules-based approach is relatively simple to implement and validate with the DWP. WaterSure should remain a distinct offering, for customers have a need for high usage.

3. Expand qualifying benefits to include non means-tested disability benefits

We support this expansion, which we cover through our non-statutory WaterSure Plus. We believe that people in receipt of disability benefits should be entitled to support if they meet the other qualifying criteria.

B. Family size

1. Increase or reduce the number of children needed to qualify

In our opinion, the large family criteria should remain as three children eligible for child benefit. An increase in the number would disadvantage some existing recipients and a reduction in the number could increase the level of cross-subsidy required from other customers.

2. Extend support to larger multigenerational households

There could be a case for allowing an extension to cover adults who are genuinely dependent on the bill payer. This could possibly include people in receipt of a disability benefit (whether means-tested or otherwise). However, the practicality of any changes in this area would need to be considered carefully. Besides increasing the cross-subsidy, it is difficult to establish whether other adults are genuinely resident within a given household. This is something the Government found when it tried to implement a poll tax in the 1980s, and the Government has better information-gathering powers than water companies. As such, we would not support WaterSure overing multigenerational families more generally – for example, people in receipt of a state pension.

C. Medical conditions

1. Signal eligibility more clearly

We think the best approach would be to include a statement of general principle followed by a list of examples, but emphasise that this list is not exclusive. The general principle that CCW suggests - “any physical or mental health condition which may result in the use of significant additional water usage” – is reasonable. We agree that the requirement for a medical practitioner’s note could be removed, provided the applicant can provide other evidence of the condition.

D. Bill support provided

1. Change the cap to the company average metered bill level

If WaterSure does remain as a bill cap, then – in principle - it could be reasonable to make this change. To avoid the benchmark being influenced by subsidised tariffs, this would need to be based on the average metered bill for a customer on regular charges – i.e. the metered bill of a customer with average consumption.

2. Change the cap to either the local average metered bill or industry average metered bill – whichever is lower

This option may not be practical, as we do not know what other companies’ average measured bills are until they have published them. Charges are set through an integrated process; we need to balance all charges against our revenue controls. This means that we need to know what the WaterSure rate will be before our charges are approved by our Boards. If we were to implement this option, we would therefore have to agree an estimated national average bill for the purpose (perhaps based on prior year with an uplift for the effect of inflation and each company’s individual price controls) so that we could work it into our price calculations. It would increase cross-subsidies in high-cost areas.

3. Replace the cap with a percentage or fixed amount discount

We would support either of these options, which would provide some discount to families with lower consumption and give better incentives to reduce consumption. For water efficiency a fixed discount (with a floor of zero) would be better than a percentage. The value of a percentage discount would naturally flex with the overall bill. The amount of a fixed discount could be fixed at a given level and then uplifted in line with the change in average bills. Changing to either of these approaches could lead to “winners and losers”. However, the UK Government has a target of reducing consumption to 110 l/p/d by 2038 so we need to reduce discretionary use if we can.

4. Introduce a Single Occupier bill cap

As CCW notes, there are issues with validating single occupier status – notwithstanding the fact that all companies have been required to offer an assessed charge for single occupiers. If WaterSure remains as a cap, then a single occupier cap is simply a more generous cap. If customers with very high usage - who may or may not be single occupants – are able to apply for this with limited evidence then they will probably do so. Single

occupants on WaterSure will have qualified under the medical criteria, so we should not presume that their usage is lower than the large families on the charge.

In practice, water companies do not have the ability to check how many people are in each property. As we discuss in B2, Government has found it difficult to do this with more extensive powers than water companies.

Even if neither of the options in D3 is adopted as the overall approach to bill support, it might be possible to make one of these available as an alternative option – for example, customers could be offered a fixed discount rather than a bill cap. This would mean that customers with below average consumption could receive some discount as opposed to none.