

RWG Wholesale Tariff Simplification Subgroup



Consultation on harmonising and simplifying bands for volumetric charges

1 Introduction

1.1 Purpose of this document

The purpose of this consultation is to seek industry views on a number of options being considered by the RWG Wholesale Tariff Simplification Subgroup (the “Subgroup”) for changing the wholesale tariff landscape, specifically in relation to harmonising and simplifying the bands for wholesalers’ volumetric charges.

The Subgroup also has other workstreams looking into unmeasured, assessed and trade effluent tariff structures, but these do not feature in this consultation.

1.2 Background

Historically, each wholesaler has developed its own tariff structure in response to regulatory principles and their own system dynamics, resulting in different approaches and little commonality between regional tariff structures. This has led to a high degree of tariff complexity within the NHH market, with c. 9,000 tariff elements in CMOS.

The Subgroup was established in 2021 to explore options for wholesale tariff structure simplification within the NHH market, with the aim of reducing complexity and improving the efficiency of operation across the market, whilst still providing a framework within which wholesalers can set charges that align with Ofwat’s charging principles¹. Subject to managing any impacts on the cost reflectivity of charges, the overall benefits of simplifying tariff structures, include:

- Creating a more consistent tariff landscape across the market – which will help establish a single, national market, rather than regional hubs;
- Reducing the complexity and confusion felt by national and multi-site customers, in the face of different tariff structures in different wholesale regions;
- Greater perceived fairness across the market for similar customers in different regions;
- Reducing systems and administration costs for retailers, and in turn enhancing their ability to compete at a national level as well as reducing the potential for erroneous tariff application for customers;
- More consistent messages to customers about the need, and options, for managing their water consumption;
- Greater opportunities for retail tariff innovation; and
- Simplification of the CMOS tariff arrangements.

In summer 2022, the Strategic Panel also identified the simplification of the wholesale tariff landscape as one of the top priorities for improving the effectiveness of the NHH market.

One of the options for simplification that might have the greatest effect within the market is the alignment and simplification of bands for volumetric charges. Following several rounds of industry consultation there is general agreement that alignment and simplification is a good idea, but concern

¹ Ofwat’s charging principles are set out in their [Wholesale Charging Rules](#).

was expressed over the potential impact on customers of changing such key elements of the wholesale charging structures, especially in regions that currently have more complex structures.

The Subgroup considered it required technical support and expertise to help refine options and explore the potential impacts, so in autumn 2022 the Subgroup commissioned a piece of work by PA Consulting (“PA”), funded by the Strategic Panel’s Market Improvement Fund, to assess the incidence effects of:

- (i) options for harmonising the band thresholds for fixed charges based on meter size; and
- (ii) options for harmonising the band thresholds for volumetric charges.

The report by PA is attached in full, along with the supporting model. An online webinar was presented by PA on 20 April 2023 and can be accessed on the MOSL website at [this link](#).

Chapter 2 of this consultation sets out the initial conclusions from the PA report in relation to volumetric charges and identifies further work that we are now asking industry stakeholders to undertake as a part of this second round of consultation. The aim is that a harmonised approach for volumetric charging bands could start to be phased in by wholesalers from April 2025.

1.3 Responding to this consultation

The Subgroup would encourage interested stakeholders and wholesalers in particular to respond to the questions and requests for analysis contained in chapter 2, by submitting responses **by 10 January 2024** using the appropriate Microsoft Forms and Excel templates. The submission of Excel templates should be made to chris.dawson@mosl.co.uk.

The questions posed for each proposed option are all the same and cover mitigating options, phasing of implementation and whether there are any more general comments or concerns.

Additional views and comments on any related topic can also be shared in answer to the final question of the consultation.

2 Bands for volumetric charges

2.1 Current position

All wholesalers have volumetric charges for water and (where relevant) waste, and all have three or more unit rates (taking into account sub-regional variations). The unit rate applicable depends on a customer's annual consumption, and in most cases, the rate reduces for higher consumption bands. There is considerable variation between the number and size of bands for volumetric charges across wholesalers:

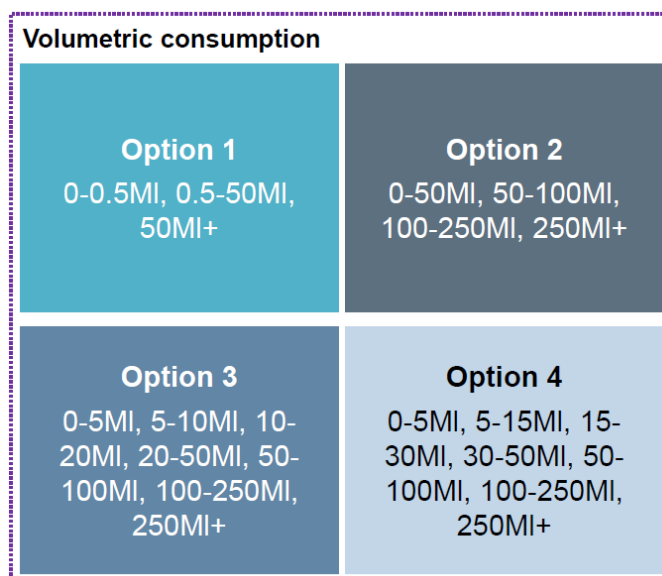
- there are more than 100 different bands for NHH customers across the market;
- the number of water consumption bands per wholesaler ranges from 3 to 13 (fewer for waste);
- the table opposite gives some examples of the variations;
- the range (difference between a wholesaler's highest and lowest unit rates) varies from c. 6% to c. 67%;
- in all but one case, the unit rate reduces as consumption increases; and
- in some cases, the same rate applies across more than one band.

Example: volumetric bands

W'saler W	W'saler X	W'saler Y	W'saler Z
MI pa	MI pa	MI pa	MI pa
0-50	0-20	0-1	up to 0.5
50-100	20-50	1-5	0.5-1
100-150	50-175	5-20	1-3
	>175	20-100	3-5
		>100	5-10
			10-15
			15-20
			20-25
			25-50
			50-100
			100-150
			150-175
			175-180
			180-250
			250-500
			500-750
			750-
			1,000
			1,000-
			2,500
			2,500-
			3,000
			over
			3,000MI

2.2 PA report and analysis

PA was asked to assess the incidence effects in each wholesale region of four options for aligning water and waste bands for volumetric charges, as follows:



For each wholesale region, PA reallocated customers into the new bands, calculated new tariff rates for each of the new bands (ensuring revenue neutrality overall), and compared the new charges against the existing charges for each SPID, using annual consumption volumes from CMOS.

PA concluded that the vast majority of customers would remain unaffected by any of the options considered for aligning both water and waste bands. By and large, under each option the most significant negative incidence effects are felt by a low number of larger users (a few hundred in each affected region), correlating to a small reduction in charges for a higher number of smaller customers. Importantly, under all options, all customers designated Group One under the current REC retail price control protections² (i.e. using less than 500m³) either remain unaffected or see a slight reduction in their bills, with the exception of only one wholesale region (Southern Water) where there would be a small (£0.04 per unit or 3%) increase in water charges.

The PA model attached shows the impact in value and percentage for customers in various consumption categories, broken down by wholesale region (see 'Volumetrics' tabs). Generally, the greatest impacts are felt where existing bands have to be merged together, because it leads to a new averaged rate covering a greater volume of consumption, so customers at the top-end of the new band pay more, and those at the lower end pay less. For example, in the simplest option, option 1 (which aligns to the current REC retail price control bands) and which has only one band above 50MI, the incidence effects are most acute in wholesale regions which currently have a number of large user bands above 50MI. So, whilst this option affects the fewest number of customers, it affects the highest proportion of volume/value, because the impact falls on the largest users in these areas. Similarly, under both options 1 and 2 there are adverse incidence effects for customers within the 0-50MI band in wholesale areas that currently have a number of bands below this level, but which are merged under these two options.

Options 3 and 4 have negative impacts for a similar number of customers to option 2, but to a lesser extent. This is because both of these options have a higher number of bands (both above and below 50MI) and hence require less 'merging' of existing bands, and less movement of customers between them.

On the face of it, the results of this study suggest that broadly³, if adopted consistently by all wholesalers:

- Options 1 and 2 would deliver both harmonisation and significant simplification of the tariff landscape. Option 1 in particular affects only a very few customers, but the impact on those who are affected looks more material;
- Options 3 and 4 deliver harmonisation of the tariff structures, and the extent of the impact on customers appears less than for options 1 and 2, but they are still relatively complex, each with seven bands, hence simplification is delivered to a lesser degree.

Given the complexity of the tariff landscape, the PA study had its limitations. For example, PA was only able to assess the impact of changing the bands for volumetric charges but not the associated supplementary fixed/standing charges that are used by wholesalers to ensure overall charges break-even at the consumption band thresholds. Similarly, there were too many variations in tariff structures between wholesalers for PA to model how, except at a general level, incidence effects might be managed or mitigated.

² [Retail Exit Code v7.0](#), Ofwat, March 2023

³ There are inevitably exceptions in some wholesale regions because of specific tariff structure characteristics.

Consequently, we recognise the value in allowing proper consideration of these issues. We are now at the stage where we are seeking detailed feedback and analysis from stakeholders in response to the PA study findings so that the options being considered can be properly appraised for their viability as a common structure across the industry.

2.3 Scope of this consultation

Following the first stage of this consultation that asked stakeholders for their initial views on the analysis undertaken by PA, we are now asking wholesalers in particular to undertake their own detailed analysis of the four options with a view to ranking them, thus enabling the Subgroup to see if there is an industry-wide consensus on a preferred charging structure.

In the interests of also considering an option that moves the industry away from the legacy structure of rate reductions for larger users (that have historically been legitimately justified on the basis of cost-reflectivity), we are also adding a fifth option to be considered that proposes just a single consumption band that applies to all metered business customers. This additional option also gives some consideration to the topics of water efficiency and demand reduction.

As mentioned in the first phase of the consultation, we now particularly want to understand:

1. the impact of the proposed change on a customer's total wholesale bill.

For example, the change in a customer's volumetric charge unit rate might be 5%, but if volumetric charges constituted 50% of the total wholesale bill (in an area with high fixed charges) or 90% of a customer's bill (in an area with low or no fixed charges), the overall impact would be different in each region); and

2. possible mitigation options.

In cases where the analysis at point 1 above shows that the impact of one or more of the options would be significant for some customers, we also need to assess the options for, and extent to which, incidence effects could be managed/mitigated within the overall structure of each wholesaler's charging structure. This could, for example, include adjustments to other tariff elements (such as standing/supplementary charges) or a phasing over multiple years of the required changes in the charging levels.

As a part of the first phase of the consultation, we also suggested that stakeholders considered the following points that had been previously discussed by the Subgroup:

- the alignment of water and waste charging bands;
- compatibility with government and Ofwat (e.g. PR24) considerations and targets around reducing business customer usage; and
- whether water efficiency and future demand reduction should be a more prevalent factor in the structural changes being proposed.

We still welcome comments on these points as a part of this second phase of the consultation. Such feedback should be included in your response to the final consultation question.

By way of update, the consideration of structural changes to wholesale tariffs to facilitate water efficiency and future demand reduction is an ongoing agenda item for the Subgroup as well as the RWG Water Efficiency subgroup. The decision taken by the Subgroup however was that our original scope and remit for simplification and harmonisation should continue as originally planned with this second phase of the consultation. Further work on possible innovative tariff trials and tariff structures that promote water efficiency will be a matter for future industry engagement.

2.4 Analysis of consumption band options

For each of the five options being considered, we would like wholesalers in particular to provide a summary of their detailed analysis using the market data specific to their wholesale supply region(s) that sets out the wholesale bill impact on their customer base. For consistency with the recently published Good Practice Guide regarding a common consumption band threshold at 0.5 MI, each of the original options put forward by PA Consulting has had this added as an additional band threshold. No such additional band threshold has been added for the single consumption band scenario (option 5), however in practice, such a structure would likely have a 0.5 MI band threshold included in CMOS for the benefit of retailers.

Please note that this analysis should be produced on the basis that only charges relating to the volumetric tariff (including supplementary/standing/break-even fixed charges where relevant) will be amended such that the proposed tariff structure is implemented on a revenue neutral basis. It should therefore be assumed that charges that sit outside of the volumetric tariff structure (such as other fixed charges and surface water and/or highway drainage charges that are levied on a non-consumption basis) will be left unaffected.

Charges and tariff structures for either 2023-24 or 2024-25 can be used in the analysis. We are however aware that some wholesalers are planning structural changes to their volumetric charges for the 2024-25 charging year. In such cases, the analysis should use the new structure that the company will have in place for 2024-25 as the base case when assessing the impact of moving to the five options being considered by this consultation.

For consistency, standardised response templates in Excel are provided for each option. The templates require the summarised analysis to separate each new consumption band, however, where some customers within a new band see an increase and others a decrease for example, we are also asking wholesalers to split each new consumption band into subgroups, to capture the impact on customer subgroupings that have similar levels of bill impact. As a minimum, the subgroupings added by wholesalers should separate customer subgroups that will see bill increases from those that will see no impact, and those that will see bill decreases. In some cases, it may be necessary to split them further to reflect different levels of impact e.g. subgroup 1.1 sees an increase of c. 3%, but for subgroup 1.2 the impact is c. 20%.

An example of how the customer subgroups may be decided upon can be seen at the end of the consultation questions, however ultimately the subgroups are for each wholesaler to decide upon.

The response templates for each option should be populated for water and wastewater charges separately and on the basis that the proposed option will be applied to both water and wastewater volumetric charging structures alike.

Following the specific analysis questions for each of the five options, there are a couple of additional consultation questions. These will help us to obtain views on the relative rankings of the options being considered.

2.5 Consultation questions

A description of the requirements for each column in the response template is set out below.

- **Movement in wholesale revenue (£):** total movement in wholesale revenue for the relevant service (water or wastewater) across all charges for the customer subgroup when moving from the current structure to the new structure. The sum of this column should be zero.
- **Number of SPIDs:** number of SPIDs for the relevant service (water or wastewater) within the customer subgroup. Customers with SPIDs grouped under a 'satellite' arrangement should count as one and be classified within the subgroup relevant to the consolidated consumption.
- **Total volume of consumption (m³):** total volume of billed consumption in m³ for the relevant service (water or wastewater) across all SPIDs in the customer subgroup.
- **Average bill impact (%):** mean average total wholesale bill impact for the relevant service (water or wastewater) across all SPIDs in the customer subgroup. All applicable charges including those that are not a part of the volumetric tariff (and hence not subject to change as a part of this analysis) should be included in the calculation of bill movements.

Option 1

Table 1 (please populate the template below for water and wastewater charges separately)

New structure consumption band	Customer sub-band for grouped bill impacts	Movement in wholesale revenue (£)	Number of SPIDs	Total volume of consumption (m ³)	Average bill impact (%)
0 - 500 m ³	Subgroup 1.1				
	Subgroup 1.2				
	Subgroup 1.3				
	Subgroup 1.4				
500 - 50,000 m ³	Subgroup 2.1				
	Subgroup 2.2				
	Subgroup 2.3				
	Subgroup 2.4				
50,000 m ³ +	Subgroup 3.1				
	Subgroup 3.2				
	Subgroup 3.3				
	Subgroup 3.4				

1. *Do you have any comments or concerns about the option laid out in Table 1 as a potential volumetric charging structure? You may wish to consider how it relates to any future plans you may have for longer term tariff strategy.*
2. *What are the options for mitigating the impact on the customers most significantly affected that you would consider appropriate for implementing this specific charging structure?*
3. *If phasing the implementation of this specific charging structure over time is deemed to be required, what would you consider to be a reasonable period so as to limit the annual impact on customers to an acceptable level? What would the annual impacts be over the proposed implementation period?*

Option 2

Table 2 (please populate the template below for water and wastewater charges separately)

New structure consumption band	Customer sub-band for grouped bill impacts	Movement in wholesale revenue (£)	Number of SPIDs	Total volume of consumption (m ³)	Average bill impact (%)
0 - 500 m ³	Subgroup 1.1				
	Subgroup 1.2				
	Subgroup 1.3				
	Subgroup 1.4				
500 - 50,000 m ³	Subgroup 2.1				
	Subgroup 2.2				
	Subgroup 2.3				
	Subgroup 2.4				
50,000 - 100,000 m ³	Subgroup 3.1				
	Subgroup 3.2				
	Subgroup 3.3				
	Subgroup 3.4				
100,000 - 250,000 m ³	Subgroup 4.1				
	Subgroup 4.2				
	Subgroup 4.3				
	Subgroup 4.4				
250,000 m ³ +	Subgroup 5.1				
	Subgroup 5.2				
	Subgroup 5.3				
	Subgroup 5.4				

4. *Do you have any comments or concerns about the option laid out in Table 2 as a potential volumetric charging structure? You may wish to consider how it relates to any future plans you may have for longer term tariff strategy.*
5. *What are the options for mitigating the impact on the customers most significantly affected that you would consider appropriate for implementing this specific charging structure?*
6. *If phasing the implementation of this specific charging structure over time is deemed to be required, what would you consider to be a reasonable period so as to limit the annual impact on customers to an acceptable level? What would the annual impacts be over the proposed implementation period?*

Option 3

Table 3 (please populate the template below for water and wastewater charges separately)

New structure consumption band	Customer sub-band for grouped bill impacts	Movement in wholesale revenue (£)	Number of SPIDs	Total volume of consumption (m ³)	Average bill impact (%)
0 - 500 m ³	Subgroup 1.1				
	Subgroup 1.2				
	Subgroup 1.3				
	Subgroup 1.4				
500 - 5,000 m ³	Subgroup 2.1				
	Subgroup 2.2				
	Subgroup 2.3				
	Subgroup 2.4				
5,000 - 10,000 m ³	Subgroup 3.1				
	Subgroup 3.2				
	Subgroup 3.3				
	Subgroup 3.4				
10,000 - 20,000 m ³	Subgroup 4.1				
	Subgroup 4.2				
	Subgroup 4.3				
	Subgroup 4.4				
20,000 - 50,000 m ³	Subgroup 5.1				
	Subgroup 5.2				
	Subgroup 5.3				
	Subgroup 5.4				
50,000 - 100,000 m ³	Subgroup 6.1				
	Subgroup 6.2				
	Subgroup 6.3				
	Subgroup 6.4				
100,000 - 250,000 m ³	Subgroup 7.1				
	Subgroup 7.2				
	Subgroup 7.3				
	Subgroup 7.4				
250,000 m ³ +	Subgroup 8.1				
	Subgroup 8.2				
	Subgroup 8.3				
	Subgroup 8.4				

7. Do you have any comments or concerns about the option laid out in Table 3 as a potential volumetric charging structure? You may wish to consider how it relates to any future plans you may have for longer term tariff strategy.
8. What are the options for mitigating the impact on the customers most significantly affected that you would consider appropriate for implementing this specific charging structure?
9. If phasing the implementation of this specific charging structure over time is deemed to be required, what would you consider to be a reasonable period so as to limit the annual impact on customers to an acceptable level? What would the annual impacts be over the proposed implementation period?

Option 4

Table 4 (please populate the template below for water and wastewater charges separately)

New structure consumption band	Customer sub-band for grouped bill impacts	Movement in wholesale revenue (£)	Number of SPIDs	Total volume of consumption (m ³)	Average bill impact (%)
0 - 500 m ³	Subgroup 1.1				
	Subgroup 1.2				
	Subgroup 1.3				
	Subgroup 1.4				
500 - 5,000 m ³	Subgroup 2.1				
	Subgroup 2.2				
	Subgroup 2.3				
	Subgroup 2.4				
5,000 - 15,000 m ³	Subgroup 3.1				
	Subgroup 3.2				
	Subgroup 3.3				
	Subgroup 3.4				
15,000 - 30,000 m ³	Subgroup 4.1				
	Subgroup 4.2				
	Subgroup 4.3				
	Subgroup 4.4				
30,000 - 50,000 m ³	Subgroup 5.1				
	Subgroup 5.2				
	Subgroup 5.3				
	Subgroup 5.4				
50,000 - 100,000 m ³	Subgroup 6.1				
	Subgroup 6.2				
	Subgroup 6.3				
	Subgroup 6.4				
100,000 - 250,000 m ³	Subgroup 7.1				
	Subgroup 7.2				
	Subgroup 7.3				
	Subgroup 7.4				
250,000 m ³ +	Subgroup 8.1				
	Subgroup 8.2				
	Subgroup 8.3				
	Subgroup 8.4				

10. Do you have any comments or concerns about the option laid out in Table 4 as a potential volumetric charging structure? You may wish to consider how it relates to any future plans you may have for longer term tariff strategy.
11. What are the options for mitigating the impact on the customers most significantly affected that you would consider appropriate for implementing this specific charging structure?
12. If phasing the implementation of this specific charging structure over time is deemed to be required, what would you consider to be a reasonable period so as to limit the annual impact on customers to an acceptable level? What would the annual impacts be over the proposed implementation period?

Option 5

Table 5 (please populate the template below for water and wastewater charges separately)

New structure consumption band	Customer sub-band for grouped bill impacts	Movement in wholesale revenue (£)	Number of SPIDs	Total volume of consumption (m ³)	Average bill impact (%)
All consumption levels	Subgroup 1.1 Subgroup 1.2 Subgroup 1.3 Subgroup 1.4				

13. Do you have any comments or concerns about the option laid out in Table 5 as a potential volumetric charging structure? You may wish to consider how it relates to any future plans you may have for longer term tariff strategy.
14. What are the options for mitigating the impact on the customers most significantly affected that you would consider appropriate for implementing this specific charging structure?
15. If phasing the implementation of this specific charging structure over time is deemed to be required, what would you consider to be a reasonable period so as to limit the annual impact on customers to an acceptable level? What would the annual impacts be over the proposed implementation period?

Additional consultation questions:

16. Please rank in order of preference the five options considered, giving reasons why the various options are deemed more or less preferable relative to one another.
17. Do you have any further comments on any other topics linked to the metered wholesale tariff structures used across the industry? Please use this question to share any future plans for charging structures and tariff strategies that you may have as a result of considering innovative tariffs and PR24 modelling.

Customer subgrouping example

A wholesaler's current tariff structure has a threshold at 20,000 m³. Under Option 4, there is a new band covering 15,000 – 30,000 m³, so they may choose to have subgroups at a very basic level of 15,000 – 20,000 m³ (for which there will likely be bill decreases) and 20,000 – 30,000 m³ (for which there will likely be bill increases). They may further choose to disaggregate the subgroups if the magnitude of bill decreases/increases varies within these two initial groupings, such as that seen below. The colour coding indicates which subgroups have decreases (green) and increases (orange).

New structure consumption band	Customer sub-band for grouped bill impacts
15,000 - 30,000 m ³	15,000 - 17,000 m ³
	17,000 - 20,000 m ³
	20,000 - 25,000 m ³
	25,000 - 30,000 m ³