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Fixed Meter Charges – Simplification and Harmonisation



RWG
Good Practice Guide

The purpose of this document is to recommend the simplification and alignment of the bands for wholesale fixed meter charges from 1st April 2024.

Introduction

Background

The RWG Wholesale Tariff Simplification Subgroup was established in 2021 to explore options for wholesale tariff structure harmonisation and simplification within the NHH Market, with the aim of reducing complexity and improving the efficiency of operations across the market.

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.

PA Consulting Study

There is little commonality across the NHH market between the number of meter size bands used for fixed charges, or the band thresholds. There are 130 different meter size bands across the market and the number of bands per wholesaler ranges from 0 to 28. This creates significant tariff complexity for the market and confusion for customers, especially those with sites in more than one wholesale area.

In autumn 2022, the Subgroup commissioned a piece of work by PA Consulting, funded by the Strategic Panel's Market Improvement Fund, to assess the impact on customer charges of simplifying and harmonising these bands. PA tested three options:

- Option 1: 2 bands (0-25mm and 25mm+);
- Option 2: 3 bands (0-25mm, 25-100mm, 100mm+); and
- Option 3: 4 bands (0-25mm, 25-50mm, 50-100mm, 100mm+)

PA concluded that the impact of each of the three options was similar. Whilst each option has both 'winners' and 'losers', given the relatively small proportion of fixed meter charges in the context of the overall bill, the impact on customers of consolidating the bands is relatively small.

Consultation and Feedback

In May 2023, the Subgroup consulted on a proposal that from April 2024, wholesalers move to a common approach for fixed meter charges, using the four bands of option 3, which is marginally less impactful than the others because of the greater number of bands.

Responses were generally supportive, and although several trading parties stated a preference for options 1 or 2, there were no objections to option 3, which was seen to create the right balance between simplification, cost reflectivity and incidence effects.

The primary concerns expressed were about the timing and the management of incidence effects. We recognise that the impact will be greatest where wholesalers currently have a large number of bands, and that the change may need to be phased. Other responses indicated that the impact could be mitigated and managed within the overall charging structure.

Further suggestions included future alignment with drainage charges levied by meter size, and the replacement of site based fixed charges with charges based on these meter size bands.

Good Practice Recommendation

The alignment of fixed meter charges across the whole market would immediately reduce some of the complexity in the existing tariff landscape, and, as PA's analysis shows, the incidence effects should be relatively small compared to the benefits.

Taking into account feedback from the consultation, the RWG Tariff Simplification Subgroup recommends that **from 1st April 2024, fixed meter charges are aligned to the following four bands:**

- **0 - 25mm (up to and including 25mm)**
- **25 - 50mm (bigger than 25mm, up to and including 50mm)**
- **50 - 100mm (bigger than 50mm, up to and including 100mm)**
- **100mm+ (bigger than 100mm)**

Ofwat supports the introduction of best practice here.

For clarity:

- the Subgroup is not recommending that wholesalers introduce fixed meter charges if they don't already have them;
- if a zero tier is also required for e.g. a bypass meter, that's fine; and
- this recommendation relates only to fixed meter charges. At this stage, the Subgroup is not recommending the use of these simplified and harmonised bandings where meter size is used as the basis of drainage charges, or to replace fixed site-based charges. The impact of doing either of these has not yet been assessed.

Since there are no SPID or meter related data changes, there should not be any transactions to process as a result of this recommendation, and hence we avoid the issues encountered with the changes to the default RTS implemented in April 2023. The Subgroup will consider raising a change proposal to make it possible to forward-date transactions in the future.