



RWG Wholesale Tariff Simplification Subgroup

Report on consultation responses and findings

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Simplification and harmonisation of metered consumption bands

The purpose of this document is to provide a summary of the responses received following the consultation on metered consumption bands that was issued by the RWG Wholesale Tariff Simplification Subgroup on 10 November 2023 and closed on 10 January 2024.

It also sets out proposed next steps and raises three specific questions on which we seek further industry feedback by 2 July, ahead of publishing a Good Practice Guide containing the Subgroup's recommendations later in the summer.

1. Introduction

The RWG Wholesale Tariff Simplification Subgroup (the “Subgroup”) issued a consultation on 10 November 2023 which asked market trading parties to consider a number of options for changing the wholesale tariff landscape, specifically in relation to harmonising and simplifying the bands for wholesalers’ metered volumetric charges.

In the process of producing this consultation, the PA Consulting report which was commissioned by the Subgroup in 2022 was considered to help refine and inform the proposed options.

2. Background

The first phase of the consultation on volumetric charging structures was issued in May 2023, seeking initial feedback on the options modelled by PA Consulting. It also asked trading parties to consider the introduction of a common consumption band threshold at 0.5 MI to align with the way in which Retailers are required to categorise non-household customers according to the Retail Exit Code (“REC”). This was subsequently implemented by the vast majority of wholesalers and came into effect from April 2024.

The second phase of the consultation on volumetric charging structures was issued in November 2023 and asked wholesalers in particular to assess for themselves the specific impacts on their own customer base of each proposed metered tariff structure option. The intention was to gain a more detailed and wholistic view than that which the PA report produced as subtleties of existing company-specific charging structures could be taken into account, such as supplementary/standing/breakeven charges and other charges that may be applied within metered tariffs.

The options under consideration were as set out below.

- **Option 1:** REC structure – thresholds at 0.5 MI and 50 MI
- **Option 2:** ‘Tariff basket’ structure – thresholds at 0.5 MI, 50 MI, 100 MI and 250 MI
- **Option 3:** Intermediate A – thresholds at 0.5 MI, 5 MI, 10 MI, 20 MI, 50 MI, 100 MI and 250 MI
- **Option 4:** Intermediate B – thresholds at 0.5 MI, 5 MI, 15 MI, 30 MI, 50 MI, 100 MI and 250 MI
- **Option 5:** Single consumption band with no thresholds

Note that any volumetric charging structure that is ultimately put forward as recommended best practice is to be applied to metered tariffs for both water and wastewater charges.

If a best practice charging structure is agreed, all wholesalers should work to align their charging structures to it.

- Any wholesalers with simpler existing charging structures should create suitable tariff bands in CMOS to accommodate the best practice charging structure but can assign the same unit rate to multiple tariff bands to essentially maintain their existing charging structure.
- Any wholesalers with more complex existing charging structures should phase in a rationalisation of tariff bands used in CMOS to align to the best practice charging structure.

3. Summary of consultation feedback

a) High-level view of feedback

There were 18 respondents to the consultation: 13 Wholesalers, four Retailers and CCW.

Support is clearly directed at simpler structures that still have distinctions for large users.

The single consumption band option, whilst supported by some wholesalers as being seen to take us towards a structure that promotes water efficiency in the absence of Rising Block Tariffs, is generally deemed insufficiently cost-reflective and too impactful on (an albeit small number of) large user customers to be a viable option at this stage.

The two tables below show consolidated scores for each option split between wholesaler and retailer respondents. Note that the lower the score, the more support the option had.

Table 1: Consolidated scores for proposed metered consumption band structures

Wholesalers	Score	Rank	Retailers	Score	Rank
Option 1	30	1	Option 1	6.5	1
Option 2	30	1	Option 2	8.5	2
Option 3	35.5	3	Option 3	8.5	2
Option 4	46.5	4	Option 4	10.5	4
Option 5	53	5	Option 5	11	5

b) Feedback on tariff structure options

A summary of the specific qualitative feedback for each of the five options is set out below. Quantitative feedback comprising bill impacts for each option can be seen in Appendix 1.

Option 1: REC structure and Option 2: 'Tariff basket' structure

- Most respondents supported these options, with only three exceptions.
- These options are consistent with the direction of travel for many wholesalers, whose ambitions are:
 - to simplify their structures; and
 - to amalgamate/remove the falling blocks/rates for large users over 50 MI to remove perverse consumption signals.
- Where wholesalers have already started on this journey, the impact on customers is considered manageable (some mentioning phasing of no more than 3 years, dependent on the definition of an 'acceptable' annual increase and with a mind to PR24 price rises).
- The alignment with the REC gained the support of most retailers. One retailer suggested a hybrid, namely option 1 plus a 5 MI threshold.
- SPIDs significantly affected (> 5% bill increase) under **Option 1** = 6,342 (0.70%)

- SPIDs significantly affected (> 5% bill increase) under **Option 2** = 6,328 (0.70%)

Option 3: Intermediate A structure and Option 4: Intermediate B structure

- Generally, these options are considered overly complex amongst both wholesalers and retailers.
- In many cases, these options would introduce more complexity than is currently the case, especially by those wholesalers who have started the simplification journey.
- Only two of the wholesalers favour one of these options, the stated reasons for which are that they have the least impact on customers (these companies currently have a relatively high number of bands).
- An additional three wholesalers did however choose one of these options as their second choice behind either the REC option or the single consumption band option, again citing zero or minimal impact on customers.
- One wholesaler objected to option 3 because it had no adverse impact on large users, hence not consistent with the right consumption signals.
- SPIDs significantly affected (> 5% bill increase) under **Option 3** = 18,929 (2.08%)
- SPIDs significantly affected (> 5% bill increase) under **Option 4** = 18,661 (2.05%)

Option 5: single consumption band structure

- Although option 5 came out last, a number of respondents mentioned it as being ‘ideal’ or recognised that this is where we should be heading longer term given environmental considerations, but the impact on customers and issues around cost reflectivity made it a step too far at this stage.
- SPIDs significantly affected (> 5% bill increase) under **Option 5** = 61,473 (7.55%)

c) Regulatory barriers and other challenges to implementation

Wholesalers raised two main concerns over implementation:

- **Cost reflectivity** – most wholesalers mentioned that this would be forgone to varying degrees depending on which option was adopted. Wholesalers would have to diverge from what they’ve deemed to be cost reflective for many years.
- **Customer impact and fairness** – it seems the 5% annual increase “rule” is no longer realistic, so we need an industry-wide discussion around what is now deemed to be ‘acceptable’ or ‘significant’. Bill impacts and fairness were also referenced by a number of wholesalers as a regulatory barrier as they are likely reasons for customers to complain about the

implementation of a new structure that could lead to Ofwat being asked to provide a determination on a charging dispute.

Other challenges noted by respondents include the following:

- **Timeline to implementation** – can we expect wholesalers to start phasing changes in for 2025/26 given resource constraints and proposed price rises at the start of AMP8 or do we allow for a more considered approach to implement for 2026/27?
- **Multiple linked agendas** – there are multiple linked agendas pulling in slightly different directions which could lead to scope creep or scope clash. With simplification/harmonisation, water efficiency and tariff innovation agendas, we must consider if we can achieve one without jeopardising the others and if there is a hierarchy of agendas to guide our collective future plans.

4. Next steps

a) Recommended best practice approach

From the feedback received, there is a clear shortlist of options that the market participants as a whole would deem workable if introduced as a common industry-wide structure. The two options on the shortlist are:

- **Option 1:** REC structure – thresholds at 0.5 MI and 50 MI
- **Option 2:** ‘Tariff basket’ structure – thresholds at 0.5 MI, 50 MI, 100 MI and 250 MI

With the lowest bill impacts, implementation timelines that can seemingly be delivered comfortably within one AMP period and sufficient levels of simplification and cost-reflectivity, these options received the most support. It is worth noting that Option 2 is the same as Option 1 but with additional disaggregation amongst larger users to maintain a greater degree of cost-reflectivity.

b) Ofwat engagement

Companies will need to comply with relevant regulatory obligations when setting and simplifying wholesale charges. All wholesale charges must be levied in accordance with the company's charging arrangements, to which Ofwat's charging rules apply. Ofwat has stressed here that charging rules are high-level and allow companies flexibility and ability to innovate when setting their charges.

This includes that companies must, and have flexibility to, strike a balance between the principles of fairness and affordability, environmental protection, stability and predictability, transparency and customer-focused service, as well as long-run cost-reflectivity. In addition, Condition E of each company's licence requires that the company must not set charges in a way which results in undue preference in favour of, or undue discrimination against, any of its customers or potential customers.

Given the significance of the need for any tariff changes to be consistent with regulatory principles and obligations and other challenges noted above, the Subgroup and the tariff workstream lead on

the Strategic Panel are in discussions with Ofwat regarding the extent to which sufficient support and assurance could be given by the regulator with the aim of enabling a successful and universal implementation of the recommended best practice.

Whilst the majority agree with and are supportive of working towards harmonisation and simplification of metered tariff structures, there is understandable caution amongst wholesalers since any such tariff changes will also need to be consistent with regulatory principles and obligations.

The discussions with Ofwat are currently ongoing and will inform the content of the Good Practice Guide before it is published.

c) Publication of a Good Practice Guide

Pending feedback to the questions below, the proposed outcome of this exercise is to publish a Good Practice Guide later in the summer that sets out a recommended metered tariff structure for all wholesalers to adopt, with a view to phasing changes in from 2025, unless this is deemed impractical.

In order to enable the movement of significant numbers of SPIDs from one tariff code to another, the Subgroup has initiated a system change in CMOS that will allow tariff transactions to have their “effective from” date set in the future. This will allow tariff structure changes to be processed systematically over time, ahead of an implementation date of 1 April. These changes have been confirmed by MOSL as being a part of the December 2024 CMOS release.

d) Feedback on next steps

At this time, we would like to invite feedback from trading parties on the next steps set out in this section. In particular, we are seeking answers to the following questions:

1. Of the two options shortlisted for becoming the recommended best practice, which is your preference and why?
2. Would your choice depend on the extent of assurance given by Ofwat regarding the adherence of the selected option to the Wholesale Charging Rules? If so, what sort of assurance would you require in order to be comfortable with implementing each option?
3. Noting the lead time in making structural tariff changes in CMOS and the soon to be available forward dating of tariff transactions, do you foresee any issue with commencing the transition to the recommended best practice option from 1 April 2025?

We would welcome your feedback to these questions and any other comments that you may have. Feedback should be provided by email to Chris Dawson (chris.dawson@mosl.co.uk) and the Subgroup Chair, James Lancaster (james.lancaster@thameswater.co.uk).

The deadline for feedback is **2 July 2024**.

Appendix 1: Quantitative feedback on tariff structure options

Note that the figures in the tables below represent the average bill impact for the given customer segment, so for the highest impacted segment (bill impact of 25% or more), the impact on some customers may be materially higher than that implied by the segment boundary.

Table 2: Option 1 (REC structure) impact on SPIDs by consumption band

	Number of SPIDs					Number of SPIDs						Total
	-20%+	-20% to -15%	-15% to -10%	-10% to -5%	-5% to 0%	0% to 5%	5% to 10%	10% to 15%	15% to 20%	20% to 25%	25%+	
Option 1												
Total	0	0	0	8,377	548,375	347,060	11	8	5,144	4	1,175	910,154
0 - 500 m3				4,872	414,558	281,094						
500 - 50,000 m3				3,492	133,106	65,526	9		5,134		1,175	
50,000 m3 +				13	711	440	2	8	10	4		

	Percentage of SPIDs					Percentage of SPIDs						Total
	-20%+	-20% to -15%	-15% to -10%	-10% to -5%	-5% to 0%	0% to 5%	5% to 10%	10% to 15%	15% to 20%	20% to 25%	25%+	
Option 1												
Total	0.00%	0.00%	0.00%	0.92%	60.25%	38.13%	0.00%	0.00%	0.57%	0.00%	0.13%	100.00%
0 - 500 m3				0.54%	45.55%	30.88%						
500 - 50,000 m3				0.38%	14.62%	7.20%	0.00%		0.56%		0.13%	
50,000 m3 +				0.00%	0.08%	0.05%	0.00%	0.00%	0.00%	0.00%		

Table 3: Option 2 ('Tariff basket' structure) impact on SPIDs by consumption band

	Number of SPIDs					Number of SPIDs						Total
	-20%+	-20% to -15%	-15% to -10%	-10% to -5%	-5% to 0%	0% to 5%	5% to 10%	10% to 15%	15% to 20%	20% to 25%	25%+	
Option 2												
Total	0	0	0	8,367	548,625	346,834	14	7	5,163	0	1,144	910,154
0 - 500 m3				4,872	414,558	281,094						
500 - 50,000 m3				3,492	133,679	64,949	9		5,134		1,078	
50,000 - 100,000 m3					141	531	3	6			62	
100,000 - 250,000 m3				3	169	195			29		4	
250,000 m3 +					78	65	2	1				

	Percentage of SPIDs					Percentage of SPIDs						Total
	-20%+	-20% to -15%	-15% to -10%	-10% to -5%	-5% to 0%	0% to 5%	5% to 10%	10% to 15%	15% to 20%	20% to 25%	25%+	
Option 2												
Total	0.00%	0.00%	0.00%	0.92%	60.28%	38.11%	0.00%	0.00%	0.57%	0.00%	0.13%	100.00%
0 - 500 m3				0.54%	45.55%	30.88%						
500 - 50,000 m3				0.38%	14.69%	7.14%	0.00%		0.56%		0.12%	
50,000 - 100,000 m3					0.02%	0.06%	0.00%	0.00%			0.01%	
100,000 - 250,000 m3				0.00%	0.02%	0.02%			0.00%		0.00%	
250,000 m3 +					0.01%	0.01%	0.00%	0.00%				

Table 4: Option 3 (Intermediate A structure) impact on SPIDs by consumption band

	Number of SPIDs					Number of SPIDs						Total
	-20%+	-20% to -15%	-15% to -10%	-10% to -5%	-5% to 0%	0% to 5%	5% to 10%	10% to 15%	15% to 20%	20% to 25%	25%+	
Option 3												
Total	897	0	0	6,609	456,670	427,049	5	5,135	12,037	0	1,752	910,154
0 - 500 m3				4,872	336,235	359,417						
500 - 5,000 m3				1,736	75,472	60,682		5,134	12,008		1,078	
5,000 - 10,000 m3	897				5,078	4,132						
10,000 - 20,000 m3					2,316	1,639					383	
20,000 - 50,000 m3				1	36,907	659					225	
50,000 - 100,000 m3					346	329					62	
100,000 - 250,000 m3					232	133	2		29		4	
250,000 m3 +					84	58	3	1				

						Percentage of SPIDs						
	-20%+	-20% to -15%	-15% to -10%	-10% to -5%	-5% to 0%	0% to 5%	5% to 10%	10% to 15%	15% to 20%	20% to 25%	25%+	Total
Option 3												
Total	0.10%	0.00%	0.00%	0.73%	50.18%	46.92%	0.00%	0.56%	1.32%	0.00%	0.19%	100.00%
0 - 500 m3				0.54%	36.94%	39.49%						
500 - 5,000 m3				0.19%	8.29%	6.67%		0.56%	1.32%		0.12%	
5,000 - 10,000 m3	0.10%				0.56%	0.45%						
10,000 - 20,000 m3					0.25%	0.18%					0.04%	
20,000 - 50,000 m3				0.00%	4.06%	0.07%					0.02%	
50,000 - 100,000 m3					0.04%	0.04%					0.01%	
100,000 - 250,000 m3					0.03%	0.01%	0.00%		0.00%		0.00%	
250,000 m3 +					0.01%	0.01%	0.00%	0.00%				

Table 5: Option 4 (Intermediate B structure) impact on SPIDs by consumption band

						Number of SPIDs						
	-20%+	-20% to -15%	-15% to -10%	-10% to -5%	-5% to 0%	0% to 5%	5% to 10%	10% to 15%	15% to 20%	20% to 25%	25%+	Total
Option 4												
Total	1,160	0	0	5,003	551,682	333,648	0	5,135	12,043	0	1,483	910,154
0 - 500 m3				4,872	414,558	281,094						
500 - 5,000 m3				130	92,642	45,118		5,134	12,008		1,078	
5,000 - 15,000 m3	1,160				7,215	4,683						
15,000 - 30,000 m3					1,086	1,384					238	
30,000 - 50,000 m3				1	35,732	625			6		101	
50,000 - 100,000 m3					194	487					62	
100,000 - 250,000 m3					169	198			29		4	
250,000 m3 +					86	59		1				

						Percentage of SPIDs						
	-20%+	-20% to -15%	-15% to -10%	-10% to -5%	-5% to 0%	0% to 5%	5% to 10%	10% to 15%	15% to 20%	20% to 25%	25%+	Total
Option 4												
Total	0.13%	0.00%	0.00%	0.55%	60.61%	36.66%	0.00%	0.56%	1.32%	0.00%	0.16%	100.00%
0 - 500 m3				0.54%	45.55%	30.88%						
500 - 5,000 m3				0.01%	10.18%	4.96%		0.56%	1.32%		0.12%	
5,000 - 15,000 m3	0.13%				0.79%	0.51%						
15,000 - 30,000 m3					0.12%	0.15%					0.03%	
30,000 - 50,000 m3				0.00%	3.93%	0.07%			0.00%		0.01%	
50,000 - 100,000 m3					0.02%	0.05%					0.01%	
100,000 - 250,000 m3					0.02%	0.02%			0.00%		0.00%	
250,000 m3 +					0.01%	0.01%		0.00%				

Table 6: Option 5 (single consumption band structure) impact on SPIDs by consumption band

						Number of SPIDs						
	-20%+	-20% to -15%	-15% to -10%	-10% to -5%	-5% to 0%	0% to 5%	5% to 10%	10% to 15%	15% to 20%	20% to 25%	25%+	Total
Option 5												
Total	19,679	30	52	254,513	472,748	6,130	60,930	109	34	375	25	814,625
All	19,679	30	52	254,513	472,748	6,130	60,930	109	34	375	25	

						Percentage of SPIDs						
	-20%+	-20% to -15%	-15% to -10%	-10% to -5%	-5% to 0%	0% to 5%	5% to 10%	10% to 15%	15% to 20%	20% to 25%	25%+	Total
Option 5												
Total	2.42%	0.00%	0.01%	31.24%	58.03%	0.75%	7.48%	0.01%	0.00%	0.05%	0.00%	100.00%
All	2.42%	0.00%	0.01%	31.24%	58.03%	0.75%	7.48%	0.01%	0.00%	0.05%	0.00%	