Charging for Water

Summary of current ICE position

The UK must invest in new and upgraded water resources to guarantee long term security of supply and to cope with the impact of climate change.

Water charges in the UK are generally low compared to most continental countries. The current regulatory regime controlling water charges is restricting water company investment in new water resources and the mains replacement needed to reduce leakage denying customers the opportunity for a more secure and reliable service. Equally, the low charges and lack of compulsory water metering mean customer undervalue water and have no incentive for water efficiency.

The continuing deterioration of the existing infrastructure has resulted in increased leakage from water mains. Climate change, pollution of groundwater and environmental regulation are reducing the availability of existing supplies. When this situation is combined with the increasing demand placed on the system from population growth and demographic changes it is clear that the rate of investment in new and upgraded infrastructure will need to accelerate.

The increased investment need to secure the sufficiency of water supplies will have to be funded by a rise in charges to householders. We believe that customers will be willing to accept such rises to ensure a long term, water supplies for the nation.

In addition government should legislate to enable compulsory water metering and variable charging for essential and non essential uses. This would raise customer awareness of the value of water and provide incentives for household water efficiency.

A. Principles – water supply and demand

1. Government and the Water industry must ensure that:

   - Sufficient drinking quality water is available for all households
   - Sufficient water, though not necessarily of drinking water quality is available to meet other reasonable demands

2. These goals should be achieved whilst:

   - Minimising the environmental impacts of water abstraction, storage and distribution
   - The nation should recognise the value of water and accept the need to meet the cost of its supply

3. In the context of rising demand and falling supply, ICE advocates:

   - Updating of the Environment Agency's water resource strategy for England and Wales, taking account of the latest demand forecasts and reduction in existing supplies
   - Investment in new water resources and the existing network
   - Measures to reduce demand including incentives to consumers to reduce water usage and higher performance standards for homes and appliances

4. Decisions on options for new water resources should be made on the basis of whole life economic, environmental and social costs.

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B. Background and key issues

1. How do UK Water charges compare to the rest of Europe?

Research by Ofwat has shown that water charges in the UK are generally low compared to other continental countries. In England and Wales the average combined charge for water and wastewater is 80p per household per day. The highest household charges in the UK apply in areas served by South West Water where there are specific factors associated with a low resident population and a huge seasonal increase due to tourism. Even here average bills are around 120p per day.

Compared with energy costs, community charges and other household expenses this is an extremely economic provision of what is the single most vital service to householders and industry.

2. Why are charges relatively low? – legacy and regulatory policy

Low charges are the result two main factors; the huge legacy of capital investment made in the 19th and early 20th century and a regulatory policy since water privatisation designed to limit price rises. Since 1990 investment has been largely concentrated on water and wastewater quality issues with little expenditure on pipe networks or new supplies.

3. What should investment be spent on?

Leakage from water pipes Networks of very old and fragile water pipes must replaced and modernised as rapidly as possible to secure predictable performance. Such a programme is likely to take up to 100 years to deliver will require long term planning and funding.

New water resources The current drought in South East England, if extended to a third dry winter, would pose very real issues of water shortages increasing the likelihood of further hosepipe bans and even standpipes in the streets and rota cuts. In addition existing water resources are at risk through long-term industrial pollution of aquifers. It is vital that investment is made in increased resources such as new reservoirs to ensure that demands can be met in all but extraordinary situations. Further information on this issue can be found in ICE's Policy Position Statement *Water Supply and Demand.*

Water Efficiency. It is important that water consumption is curtailed through the application of water efficiency measures including metering and installing modern technology in new buildings. We must also find ways of exploiting available resources of non-potable water.

Prevention of Sewer flooding Flooding will increase as rainfall patterns become more intense and old sewer networks, already serving a hugely greater population than originally designed for – become overloaded. Investment is essential to predict and replace or enhance sewer networks.

Pollution of watercourses Sewer overflows create unacceptable damage to rivers and water bodies. More investment is required to control and limit these discharges and to provide capture and treatment before they do damage.

We must also limit the volumes of rainwater that enter the foul sewage systems through local storm water storage. These SUDS proposals [Sustainable Urban Drainage Systems] will be expensive to install, maintain and operate.

4. How much will it cost?

Precisely costing an investment programme that may run for 100 years or more is very difficult and the development of very long term investment plans and accompanying funding streams is a more pressing need than an academic calculation of total costs.

However, as an indication of the scale of increases in charges, increasing the rate of replacement of mains in London to achieve a 100 year average pipe life would require replacement of about 300km of pipe a year and an increase in charges of the region of £30 to £50 per year per household.

It can be noted that in 2004 water companies proposed a rise in charges averaging £70 per household, a 29% rise, in part to pay for increased investment. OFWAT limited increases to an average of £33 per household.

5. Acceptability and Affordability

Research commissioned by DEFRA and OFWAT suggests that customers are willing to pay higher charges if this results in long term security of supply.

There are of course issues of affordability and any future sharp increase in costs must take such issues into account. More discriminating methods of charging need to evolved which could include universal metering with banded charging so that basic needs for health are provided at an affordable cost with rising costs for discretional uses such as garden watering, swimming pools etc.

6. Metering

Metering of commercial usage is already in place. Domestic water metering can only be compulsory where the special status of a *water scarcity area* can be demonstrated. Only one UK water provider has so far secured such powers. Water companies can offer optional metering to domestic customers and it is possible to fit a meter on change of ownership so that the new occupant becomes a metered customer.

To make real inroads we believe legislation is needed to allow mandatory metering. We accept that there will be some homes, especially in blocks of flats, where individual metering is either impractical or unreasonably expensive to install. However this should not deter legislators from making the shift to universal metering possible which should be combined with the opportunity for variable charging as described above.

C. ICE recommendations for action

1. Government

Change OFWAT's terms of reference to give more emphasis to ensuring water companies' plans for future supplies are robust, accepting that this will require a rise in water charges to consumers and industry.

Legislate to enable Water Companies to introduce mandatory water metering for domestic customers, combined with variable charging for essential and non essential uses.

Promote the need for water efficiency, linking it to climate change and sustainability.

2. Water Companies

Bring forward costed investment plans for new and upgraded infrastructure.

Invest in R&D for innovative alternatives eg improving capacity and quality for recycled water.

Promote household water efficiency more actively.

D. References

International Comparison of Water and Sewerage Service 2005. (OFWAT, 2005)
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ICE Policy Position Statement *Water Supply and Demand*
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