

Factors to consider when planning a tariff trial

Tariff trial questions to be addressed

Objectives

- What issue (or issues) do you hope to address through the trial?
- Why is this issue relevant to your area?

Essential outputs

- The details of your proposed tariff trial
- Why, and how, you think the trial will address the identified issues (including the data you expect to collect and any modelling/research already undertaken)
- What outputs do you expect from the trial?
- What information will you collect before/during/after the trial and how will this information prove whether the trial is addressing the original issue?

Financial principles to consider

We expect all tariff trials to be:

- Cost neutral
- The level of the tariff should be linked with the underlying cost drivers (either the costs you face or the costs you expect to face in meeting the future supply demand balance).
- Waste charges should not be increased in order simply to reinforce the water price signal. We will not approve trial waste charges without evidence that the tariff reflects the underlying cost drivers for sewage collection and treatment.

Selecting the sample

- What areas or groups of customers will you select participants from? Have you already determined these locations or groups?
- How will you recruit customers? Do you intend to randomly select them or by some other method?
- Do you need a control group to compare customers on the trial against (ie: same area and type of customer but remaining on the standard tariff or information on consumption of trial customers before as well as during the trial)?

Communicating with customers during the trial

- How will you explain the trial to participating customers?
- Will you educate customers of the possible implications for their bill if they take part in the trial?

- Will a customer be able to choose to return to the standard tariff before the end of the trial?
- How will you handle a customer on the trial who may receive a significantly higher bill?
- What information will the customer have, for example if they are on a rising block tariff how will they know if they are about to move up a band, or if seasonal when the higher charge applies?
- How often will meters be read?

Results

- How will you present the results?
- Will you know the levels of any cross subsidies that have been introduced?
- How will you use any results to inform future policy?
- How will you determine whether the trial is a success?

Next steps

- Will you want to roll out a bigger trial covering more customers or, if the trial is a success, will you want to roll out a new tariff?
- If you do decide on another trial what will be the scale?
- What timescale will you want to introduce the new trial/tariff over?
- What will be the communication process for customers?

Examples of 2008-09 tariff trials

There are currently 4 tariff trials during 2008-09:

Wessex Water has a good example of a seasonal tariff, a rising block tariff and a peak seasonal tariff.

Folkstone & Dover Water Services has a rising block tariff with some social element

Welsh Water has Water Direct and Water Collect aimed at helping make payments easier for customers eligible for Water Direct or in specified local authority housing.

South East Water (formerly Mid Kent area) has a seasonal tariff trial.

Details of all 4 of these tariff trials are available from individual company charges schemes.