



pmie Minister

PRIME MINISTER

WATER METERING

E(A) noted on 18 November my intention to publish the "Watts Report" on water metering in the near future. John Patten is arranging for the report to be published on 11 December. I attach a note on the issues raised and the next steps.

I propose:

- a. to bring forward legislation, in the water privatisation Bill if that is agreed, to remove legal doubts about compulsory metering trials;
- b. to encourage trials of metering, initially to establish consumption patterns but later with a view to trials involving charging by measure once powers are available;
- c. to provide, in byelaws, for all new dwellings to be constructed to enable simple meter installation.

Unless you or other ^{require} E(A) colleagues raise objections I shall proceed as above.

but not require.

The point about requirement meters in new houses is do get some mass installations not kids.

K B

3 December 1985

WATER METERING

Basis of Water Charges

1. About a third of water consumption is already charged for by measure, mainly industrial and commercial. About two thirds, mainly domestic, is charged for by the rateable value of the property supplied. This proxy for consumption produces "rough justice" for some customers which is only somewhat tempered by the effect of minimum or standing charges. All customers can opt to have a meter but only 1 in a 1000 households has done so.

Collection of unmeasured charges is cheap and water undertakings make customers opting for meters bear the full cost. A radical change is not inevitable as a result of local Government finance reform. Some form of proxy for water consumption, eg size of property or possibly number of occupants, is likely to continue to be available even if rateable value is not.

How can that be, if rates disappear?

2. A change to charging by measure is attractive, and the project of privatisation makes it more so. Two other important considerations are:

- a. gainers and losers: a change from a proxy for consumption to measured consumption as a basis for charges will shift their incidence. The new pattern will be more equitable and more efficient as consumers become aware of the cost of consumption. However around half of consumers will pay more - detailed estimates cannot be made because present consumption patterns and likely changes in consumption are

but may make less - i.e. pay less

Because the metering charges are no expense

- and equitable and right

*Non-rival
Water is a commodity like gas & electricity*

Ingh?

not known. But large families in low RV properties are likely to pay more if metered. There is bound to be a political downside in this area;

b. economic efficiency of metering: a commercial case for metering will depend upon the circumstances of an individual water undertaking: whether consumption is rising, the effect of charging by measure on the particular consumption patterns, adequacy of existing water resources and supply capacity, and other factors. Previous reports identified the high cost of installing and operating meters and smaller savings likely if charging by measure led to reduced water use. The Watts Report advances the argument. Average cost is estimated at around £4.75 per property per year, somewhat below earlier estimates due to economies of scale. Savings are put much higher than previously reported but are less certain to arise and more variable between areas. Only where investment in new water resources, or additional water supply capacity is planned and can be deferred if overall or peak demand for water is reduced by metering, will significant savings in investment costs be made to the ultimate benefit of consumers. Reducing peak demand may make the biggest savings but only if effective measured tariffs reflecting peak costs can be devised. The savings may then compare with the costs of metering but they will occur over a much slower timescale than the costs of meter installation, so there will be a large initial financing requirement.

The case is not convinced - it is much more fundamental than that.

Of course!

Facilitating metering

*Charging by measure
is done and is a right.
- How does S75 justify this total
difficult measures of payment?*

3. Under the Water Act 1973, water authorities are free to fix charges on any basis they see fit, provided they are related to costs and are non-discriminatory between classes of consumer.

Charging by measure is possible provided classes of consumer are treated consistently. The Attorney General queried the need for legislation to introduce domestic metering, but he accepted that compulsory metering trials (or the phased introduction of general metering) might give rise to legal challenges depending upon the circumstances. The Watts Report recommends that these doubts are removed and other powers to facilitate the introduction of metering are provided.

Trials

4. There are two major gaps in the information needed to assess the economic merits and feasibility of domestic metering:

- consumption patterns and the effect of charging by measure;
- the costs and practical problems of a general compulsory meter installation programme, including use of different technologies.

The introduction of general metering

5. Individual water undertakings decide what form of charges to make.

*Not if
in
legislation*
It will in practice be for the post-privatisation companies to decide whether and how far to extend general use of charging by measure.

To do so they will need the benefit of the powers and information from trials referred to above. It is too early to presume that

universal compulsory metering would be their commercial decision.

Proposals

6. In the light of the Watts Report and the above considerations, I propose:

- a. to encourage debate by inviting comments following publication of the report;
- b. to bring forward legislation, in the water privatisation Bill, if that is agreed, to remove legal doubts about, and otherwise facilitate, compulsory metering trials and the extension of metering;
- c. to provide in byelaws for all new dwellings to be constructed to enable simple meter installation;
- d. to encourage trials of metering initially to establish existing consumption patterns without charging by measure but later with a view to trials of charging by measure once powers are available.



10 DOWNING STREET

ce BE x 2

9 December 1985

From the Private Secretary

Dear Robin,

WATER METERING

The Prime Minister has seen your Secretary of State's minute of 3 December in which he set out the line he proposed to take on publication of the "Watts Report" on water metering.

The Prime Minister strongly disagrees with the proposed approach. She also believes that it is not in accord with the views expressed by colleagues at E(A) when water privatisation was discussed. She believes that it would be right to come forward with much firmer proposals for the introduction of water metering. The present system in her view leads to waste and is inequitable (because some people have to pay for the wasteful behaviour of others).

The Prime Minister points out that the reason why so few meters have been installed is that the meters themselves, and installation, are still expensive. There is a need to start a programme going in order to win economies of scale. It is not enough to provide for all new dwellings to be constructed to "enable" simple meter installation. Meters should be required, in order to encourage mass production. The Prime Minister further questions whether a proxy for water consumption is likely to continue to be available even if rateable value is not, (paragraph 1 of the attachment) and she has noted that the number of losers from a change to metering would be reduced to the extent that people then wasted less water (paragraph 2a). The Prime Minister questions whether it is right to maintain two bases for setting water payments and suggests that it should not be left to companies to decide whether and how far to extend general use of charging by measure.

The Prime Minister would be grateful if your Secretary of State could come forward with firmer proposals for the introduction of water metering. These should include a timetable for the trials. Your Secretary of State might also consider a provision in the privatisation bill for the Government to bring in phased compulsory water metering, by affirmative order. No doubt there are also other possibilities for ensuring faster progress towards metering of water.

BF //

88

I am copying this letter to Private Secretaries to members of E(A).

Yours ever

David

(DAVID NORGRÖVE)

Robin Young, Esq.,
Department of the Environment

D.R.

JALAFF

PRIME MINISTER

WATER METERING

I suspect you may find the recommendations in Mr Baker's minute unacceptably dilatory. He proposes to make it easier to introduce water metering, to encourage trials, and to provide for all new dwellings to be constructed to enable simple metering installation.

*Send it back - it is unworkable
faults in analysis
and not in accord
with our
previous
soundings
A colleague
meets
me*

The effect is that the water authorities will have available to them the results of the trials. But it will be up to individuals and to the water authorities to decide how quickly metering comes in. The water authorities themselves may well not be attracted to the idea: I know little about them, but there is some risk that they will be size and output oriented.

The main argument against more rapid extension of water metering is that the economics are not proven.

Yes

Do you want to ask Mr Baker to come back again with firmer proposals for the introduction of water metering? You might invite him to include a firm timetable for the trials and to consider provision in the privatisation bill for the Government to bring in phased compulsory water metering, by affirmative order, once the results of the trials are known.

Proceed in this way?

DKW

David Norgrove

6 December 1985

If people are using a lot of water or wasting it they should not expect their neighbours to pay for it any more than for gas or electricity.

The paper is thoroughly considered



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

10 December 1985

Dear David,

My Secretary of State has seen your letter of 9 December, setting out the Prime Minister's views about the line to take on publication of the Watts Report on water metering.

In the light of the Prime Minister's desire to react more favourably to the idea of extending domestic water metering, the Secretary of State has revised the text of the announcement which we propose to make tomorrow. I enclose a copy of the revised text which is phrased to respond more positively to the Watts Report.

Your letter raises a number of new policy issues to which the Secretary of State will respond without delay.

Yours sincerely

Sue Vanderson

David Norgrove Esq.

SUE VANDERSON Private Secretary

ANSWER

The report of the Joint Study Group under the chairmanship of Mr R Watts, Chairman of the Thames Water Authority is being published today by Her Majesty's Stationery Office.

The Government welcomes the report. It presents a new view of the economic aspects of domestic water metering. Unlike earlier studies, it concludes that in some circumstances charging households by means of water metering may be cost-effective.

This radically alters the options: and justifies undertaking the extensive trials which the report calls for.

We shall legislate at the earliest suitable opportunity to make progress possible. But before responding to all the recommendations in detail I intend to seek the views of water consumers and others who may be affected. I shall work out with the industry a programme of follow up action.

W

10 DOWNING STREET

Prime Minister

pa

Water metering

The Watts report on water metering
is already in the bookshops and
publication cannot easily be postponed.

However the proposed PA looks acceptable!
It keeps ~~at~~ open options for further change.

Content with the PA?

DHS
10/12

Yes
mt