



Consultation on Ofwat's Section 13 proposals to modify company licences

1. The Consumer Council for Water (CCWater) is the statutory consumer organisation representing water and sewerage consumers in England and Wales. CCWater has four regional committees in England and a committee for Wales.
2. We welcome the opportunity to respond to Ofwat's consultation on its proposals to modify the conditions of appointment (licences) of all appointed water only and water and sewerage companies. The statement below sets out our views and concerns about the proposed licence changes from customers' perspective.
3. We agree that licence modifications are required to create separate wholesale and retail price controls to help enable retail market reform for business customers required by the draft water bill¹.
4. However, the Ofwat proposals for greater flexibility for the economic regulator seem to go beyond what is needed in the draft bill. We are concerned that Ofwat's consultation paper does not identify the benefits to customers of this additional flexibility.
5. There may be risks for customers arising from company and investor uncertainty with this additional flexibility. Recent reports by several equity research companies, and a ratings agency, have shown how this uncertainty may be seen as a risk by investors². If this results in an increase in (or an unnecessarily high) cost of capital, we would be very concerned. This could outweigh the customer benefits of an expansion of the retail market for business customers. Given these risks and the lack of clarity in terms of impact on customers of Ofwat's licence proposals, CCWater is unclear that the additional flexibility sought by Ofwat is beneficial for customers.
6. Ofwat's consultation is also somewhat unclear as to the circumstances when companies will be able to appeal to the Competition Commission on licence modifications in the future.

Enquiries

Enquiries about this consultation response and requests for further information should be addressed to:

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¹ Draft Water Bill (July 2012) Clauses 1 - 6 and Schedules 1 - 5 <http://www.official-documents.gov.uk/document/cm83/8375/8375.pdf>

² Moody's Global Credit Research (29 October 2012), Deutsche Bank Markets Research Water Alert (29 October 2012), UBS Investment Research First Read: UK Utilities (30 October 2012), Bank of America/Merrill Lynch 'Muddying the Waters' Rating Change (31 October 2012), J.P. Morgan Europe Equity Research: UK Water (1 November 2012)