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Dear Stephen

**Setting price controls for 2015-20
Consultation on business planning expectations**

As you may know, SSE Water is a new appointee that has been serving customers within a growing portfolio of new “inset” housing developments since 2007. The activities of new appointees and the fact that they are currently regulated by means of a ‘relative price control’ are discussed in section 5 of the consultation.

SSE Water has not been involved in the detail of the current price control setting process for incumbents and welcomes the opportunity to respond to the questions in section 5 of the consultation that deal with the application of the business planning process and wider price control considerations to small companies. Our comments on these questions are set out below.

Section 5: Application to small companies

Q10 Do you agree with our proposal to continue to set price limits for new appointees using a relative price control? If not, what alternative do you prefer?

Yes. This approach combines proportionate protection for customers with a reasonable degree of certainty for a new entrant considering an investment in the water market. It has been successfully used for many years as the basis of price controls for new entrants providing competitive networks in the electricity and gas industries.

Q11 Do you agree that we should set Cholderton & District Water its own simplified price control?

No comment.

Q12 Do you think that we should develop a new small company service incentive? If so, what form do you think this incentive should take?



We believe it is too early in the evolution of the market to consider formal service incentives on new small companies. There is significant uncertainty in the market, with the Water Bill due to be enacted in the current session of parliament and the market reform programme still to clarify the way in which the ‘new appointee’ business model can be accommodated in the legislation and market codes. In our view, given this background, it would be time enough to revisit this matter once the new statutory and regulatory framework for the water industry has become established in practical terms.

Q13 Do you agree with our proposal that small water companies should not be subject to separate wholesale and retail price limits?

Yes – we agree that this is a proportionate approach.

Q14 New appointees are growing in size. In the future do you think that we might need to adopt a different approach to regulating their prices and service? If so, what circumstances should prompt a change of approach?

The ‘relative price control’ approach has worked effectively in other industries (as mentioned in response to question 10) for many years. New appointees grow by finding additional development sites in which to invest. The relative price control mechanism provides an easily understood marker for the revenue that a potential development will provide, which is an important part of evaluating the investment decision. At the same time, it protects customers moving to that new site once it is developed, as they will face end-user tariffs linked directly to what the incumbent would be allowed to charge them if, instead of a competitive offering, the incumbent developed the site in question. We therefore see no reason why the relative price control approach should need to change in the foreseeable future.

I hope these comments are helpful but please let me know if you wish to discuss any point further.

Yours sincerely

Aileen Boyd
Regulation Manager