



Dŵr Cymru
Welsh Water

29 OCT 2013

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Jacob Wood
Markets and Economics Division
Ofwat
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

25 October 2013

Dear Jacob

Re: Payment terms between wholesalers and retailers – a consultation

We broadly support the approach advocated by Ofwat and agree that the laying down of largely prescriptive payment terms between wholesalers and retailers will better support the water market and create a level playing field between entrants and the incumbent's associated retail operations. The periods specified for settlements appear reasonable and should not significantly impact the cash flow and credit risk of the wholesale business.

Whilst our preference would be to require retailers to pay in advance for continuously delivered services and separately for event based services, as they are in Scotland, we acknowledge that Ofwat has to balance the safeguards of the wholesale business with the ease of market entry.

We welcome the collateral requirements set out in the consultation that require retailers to demonstrate some form of collateral against the risk of default.

With regard to body of the consultation document we'd like to make the following observations:

- Extending payment terms to include event based activities will introduce an additional layer of administration for the wholesale business with little corresponding benefit to the retail market.
- The consultation is largely silent on what the remedial action would be should a retailer fail to comply with its payment terms.
- Settlement, billing and payment periods proposed in the consultation document would seem to be at odds with Ofwat's own Access Code Guidance

Products and Services

We do not support the standardisation and suggested aggregation of payment terms for both continuously delivered services and event based charges. It will require the wholesale business to create an additional administrative layer to coordinate and aggregate charges from disparate parts of its business with little evidence to suggest that it will positively influence the water market.

We favour the approach adopted by Scotland where payment terms are only prescribed for continuously delivered services. This will avoid unnecessary costs, will not differentiate between market entrants and the wholesaler's other customers, provide greater uniformity between the Scottish and English markets and reduce the design burden on the central market mechanism.



Glas Cymru Cyfyngedig

We welcome correspondence in Welsh and English
Rydym yn croesawu gohebiaeth yn y Gymraeg neu yn Saesneg

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Non -Compliance

Given the apparent difference between the WSL Access Code Guidance and the recommended payment terms in the consultation, we believe the issue of non-compliance with recommended payment terms should have been covered within the scope of the consultation document.

Settlement Timeline

The settlement, billing and payment periods proposed in the consultation document would seem to be at odds with Ofwat's own Water Supply License Access Code Guidance.

For Example

Subject	Consultation Document	Access Code Guidance
Billing Period	Prescriptively set at 30 days	The licensee shall at its discretion determine the billing period provided that it is no greater than 1 month (month unspecified number of days).
Production of Invoice	Initial invoicing should happen five working days after the end of the billing period.	The licensee may change.....the date on which it wishes to receive invoices.
Payment Terms	30 days from the last day of the billing period, or 15 days after the invoice is deemed received, whichever is the later.	Invoice shall be due and payable by the licensee within 14 days of receipt of the invoice.
Meter Read and Initial Invoice	Initial invoice five working days	Up to 5 working days to provide meter read (almost certainly making all initial invoices estimates).
Estimates for Payments in Advance	Dealt with by reconciliation deadlines	The licensee can request if there had been an over estimate that the wholesaler refunds the difference within 10 working days.

It may well be the case that the work of the Open Water Programme on market codes will address these anomalies. In the interim however there would seem to be this disparity between the WSL regime and the price review.

We hope that you have found our response of some assistance; if however we can be of any further help, please don't hesitate to contact us.

Yours Sincerely



Mike Davis
Acting Finance Director