

Charges Reform  
Markets and Economics Division  
Ofwat  
Centre City Tower  
7 Hill Street  
Birmingham  
B5 4UA

4<sup>th</sup> July 2014

Dear Sir,

**Consultation on wholesale and retail charges for 2015-16 and charges scheme rules**

**Q1. Do you agree with the proposed approach to the development of charging arrangements in the 2015-20 period? If not, please explain and provide evidence for your view.**

We are content with the approach to the development of charging arrangements summarised in Table 1 of the consultation document. We consider it important that Ofwat sees 2015/16 as a transition year given it is the first time separate wholesale tariffs will be required.

**Q2. Do you agree with the nominal 5% bill change as a threshold for undertaking impact assessments? If not, please set out an alternative threshold and provide evidence for this view. Should the same threshold apply to all customer types?**

As our business plan does not project material increases in average bills, the 5% threshold appears reasonable, provided RPI inflation does not take an unexpected path. Even if this were to be the case, we note that the rule is not an outright prohibition of increases above 5% but instead a trigger for study of incidence effects and phasing-in of changes.

We welcome the transitional arrangement, where for 1<sup>st</sup> April 2015 charges, we submit a draft wholesale and retail charge spreadsheet. This will help to highlight risks of significant incidence effects and any issues with transition to the new price control regime.

**Q3. Do you agree with such a threshold being a short-term measure? If so, when should Ofwat remove such a requirement?**

We agree that the 5% threshold rule should be a temporary measure whilst companies gain experience of the new price control regime and requirements for charging. Ultimately, deciding the necessity of impact assessments and managing incidence effects should

become the responsibility of each water company. We would suggest the 5% requirement could be removed after two years, for 1<sup>st</sup> April 2017 charges.

**Q4. Do you agree with the draft schedule for presenting standardised charging schedule presented in appendix 7? If not, please provide alternative proposals.**

We welcome Ofwat presenting a draft schedule to stimulate discussion but we have the following important observations on the version presented in appendix 7.

It is not clear if the wholesale charging schedule is intended to be for non-domestic customers only or if it is to include domestic customers. As the intended purpose is to inform the competitive market, the table should be clearer that it only applies to non-domestic customers.

The schedule appears incomplete in that there are no fields in which to enter the wholesale elements of unmeasured rateable value based charges or unmeasured assessed charges and these need to be added.

The bandings for standing charges in the schedule do not match how we currently differentiate standing charges. For example we have 4 different standing charges for meter sizes that are 50-54mm, 65mm, 75-80mm and 100mm, but in the proposed schedule there is only space for one price in the 51-100mm category. We think there should be sufficient fields in the schedule to allow each company to enter its standing charges even if that means other companies with simpler tariff structures might have to leave some lines blank. Otherwise there is a risk that the format of the schedule will by itself necessitate changes to some companies' tariff structures that are unrelated to their particular customer interests.

**Q5. Should charges associated with Open Water and market readiness be included as a separate increment to the volumetric charge in the wholesale charging schedule?**

We understand that separate identification of the effect on prices of Open Water and market readiness costs would increase transparency and could be used to confirm that these costs have only been recovered from non-household customers. However, it adds an additional component to each charge in the wholesale charging schedule, increasing complexity. We consider that the information would be of limited use to most customers.

**Q6. Beyond 2015, do you agree that wholesale charges should be published in advance of retail charges? If so, please provide views on how far in advance is appropriate.**

The November RPI will continue to be a key component of wholesale price controls and charges after 2015, but it is only released in mid-December. To allow companies time to develop their charges and time to complete Board assurance processes, we think wholesale charges could be published between 7<sup>th</sup> and 14<sup>th</sup> January. We have reasonable confidence that this could be met, as it is similar to the Principal Statement submission date under the previous price control regime.

**Q7. Do you consider that Ofwat should require retail water bills to provide a breakdown of retail and wholesale charges?**

We tend to agree with the argument in the consultation document that separating wholesale and retail charges on customer bills provides information of limited value to customers. It is something, however, that should be reviewed again in the future as the new charging arrangements mature.

Please contact me if you would like any further information related to our response to this consultation.

Yours sincerely,



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**Richard Moriarty**  
**Director of Regulation**