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Charges Reform
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Dear Sir/Madam

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

As part of the move towards greater separation of Anglian Water's wholesale and retail businesses, Anglian Water Business (AWB) is taking steps to establish itself as a separate business retail entity within the water sector. This response is from Anglian Water Business and reflects our views as an incumbent business retailer. Anglian Water Wholesale will provide its own separate response.

We think that its helpful to set out expectations to gain greater clarity across the industry, particularly when there are so many changes for the first year of the new price control period. In particular, this is the first year in which the industry will need to set tariffs which will consist of wholesale charges and retail charges.

We also welcome greater clarity on expectations over the years until 2020 when wholesalers and retailers will become increasingly separate and independent. We have responded to the questions posed as follows:

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 broadly support the proposed approach and welcome the opportunity to be involved in working with Ofwat and other stakeholders to progressively evolve the charging framework.

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?*

Ofwat says "we expect companies to carry out a proportionate impact assessment whenever the nominal value of a customer bill is expected to increase by more than 5% from one year to the next and to develop strategies for handling any such changes."

In the case of non-household customers, it's not clear whether Ofwat expects the wholesaler or the retailer to undertake such impact assessments. The largest part of the overall retail bill is the wholesale charge which would suggest it should be the wholesaler, however it is the retailer who manages the relationship with customers and hence has the understanding of potential impacts. Neither is it clear who might be expected to mitigate any unacceptable impacts on customers. Clarity on this point would be helpful.

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

For non-household customers we cannot be certain how extensive incidence effects will be as the industry moves towards separation of wholesale and retail tariffs and into a competitive retail market in 2017. Therefore, it is difficult to say at this time whether such a threshold will be required in future.

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

We know that wholesalers have wide and varied approaches to charging structures which can be difficult to manage when dealing with national contracts. Nevertheless, given the nature of this market, we agree that the proposed draft schedule provides a reasonable level of consistency in the presentation of wholesale charges across all wholesalers.

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 agree that these costs are best recovered through wholesale charges to non-household customers, however, we do not agree that these costs are best recovered through the volumetric charge. Our primary concern when setting tariffs will be cost reflectivity so that we show no undue preference or discrimination to any particular customer class. Recovering these costs from the volumetric charge will mean larger consumers of water will pay considerably more than small consumers. However, the costs that larger consumers impose on the

Open Water Programme and the establishment of a market operator are not in any way related to their higher demand requirements. For this reason we would prefer to see these costs recovered through a fixed charge.

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.*

Yes. It will be essential for wholesale charges to be published first to allow retailers time to undertake commercial analysis, develop and confirm retail tariffs, undertake testing and update billing systems. We would expect wholesale charges to be published as early as possible. At the very least, we would expect to have two months from publication of final wholesale charges to issuing of customer bills. Furthermore, we would expect to have had informal discussions with the wholesaler ahead of final publication to understand proposals as far as possible in advance.

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

No. We think it should be for retailers to decide on the content and presentation of bills for business customers taking into account customer views. We think this should be the case in 2015-16 and thereafter.

We hope you find our comments useful. Should you wish to discuss any aspect of our response, do not hesitate to contact me.

Yours faithfully



B Bob Wilson
Director of Anglian Water Business