

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

Sembcorp Bournemouth Water's response

This is our response to Ofwat's paper 'Consultation on wholesale and retail charges for 2015-16 and charges scheme rules'.

Our views – key points

- We remain unclear on Ofwat's expectations regarding the cost reflectivity of household charges. Ensuring full cost reflectivity to support non-household competition may lead to a need to unwind any existing cross subsidies between household and non-household customers and we urge Ofwat to provide clear guidance on the extent to which any cross-subsidies should be unwound. Greater clarity will assist companies to fully analyse the potential impact on bills.
- The consultation discusses household and non-household customers' bills however at times is unclear what customer class it is referring to: household, non-household, or both. Clarity is essential and we urge Ofwat to ensure that there can be no room for misinterpretation. We would welcome more of the 'for the avoidance of doubt' comments that are used in the paper.

Consultation questions

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 agree with the proposals subject to the comments in this response.
- It will be critical to ensure ongoing dialogue between Ofwat and companies to understand the evolving situation particularly in respect of incidence impacts. Regular reviews of charges scheme rules should take place with any revisions incorporating lessons learned as the process develops.

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?

- We agree that customers want bill stability and that assessing nominal bill movement will provide an indicator of the customer acceptability of changes. However it is a 'blunt tool'. Comparing bill movements in real terms and the numbers of customers affected will provide a much clearer picture of the actual impact and the extent of the mitigation action that will be required.
- The threshold refers to classes of customers rather than individuals but mitigation action within the class (whether it is households or bands of non-households) is also critical as winners and losers will be created as cost reflectivity and tariffs are further developed. Understanding the extent of the losses and gains will inform companies to take appropriate action to avoid issues such as increased debt or complaints.
- For PR14 we have reviewed our tariff structure. The work has included extensive bottom-up work to ensure cost-reflectivity. Incidence analyses confirm that there will be winners and losers in all non-household tariff bands and we are currently working on a management strategy. This will include using a transitional approach to smooth the impact on all customers. A simplistic analysis at the notional threshold level will not protect customers.

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 any rebalancing of non-household tariffs should be completed by 2017/18 and therefore that the threshold should be short-term, focussed on that date.
- The picture is less clear for household customers. If rebalancing between household and non-household wholesale charges is needed to ensure full cost reflectivity then a longer period could be needed smooth the impact on individual households. For these customers a threshold provides a useful reference point and it should be reviewed annually with the aim of removing it as soon as possible while still providing protection.

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

- Yes. The schedule is acceptable.

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 in principle but it should not be mandatory to apply the apportioned costs in line with the expected bill levels. For example our large special agreement customer uses around 28% of our distribution input and this customer should not be expected to bear a significant proportion of the cost, particularly as the contract is already competitively let and so it has little to gain from the

introduction of competition. Companies need to be given some flexibility around how the cost is distributed fairly across non-household 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.

- This is a reasonable suggestion and we do not see why wholesalers could not ultimately use a similar timetable to the current Principal Statement process.
- The requirement should be phased in between 2015-16 and 2017-18 to allow for the practicalities to be understood.

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

- We agree that bills should not be itemised to show retail and wholesale charges for 2015-16.
- However to ensure fairness and transparency for customers future bills should be itemised.
- The stated arguments against itemising bills do not make sense to us, in particular that the incentive to retailers to negotiate lower wholesale bills will be reduced. While we understand the point, competition is meant to benefit the customer and it is counter-intuitive if retailers would be permitted to retain any wholesale benefits and not share them with customers. Retailers could choose, or be encouraged to, gainshare this with their customers, which could become a competitive selling point for them.

*Sembcorp Bournemouth Water
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