

Our ref: JD/Library/Ofwat

Your ref:

2 July 2014



Charges reform
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Dear Sir

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

We welcome the opportunity to respond to the consultation referenced above.

As we approach the time when significant market reform in the water industry in England will be introduced, we acknowledge the need for new rules to determine how water companies should present their charges to customers. However, given also the substantial amount of engagement with customers during the current price review process, it would be inappropriate to simply ignore all that has been learnt and just return to enforceable regulatory requirements. We would urge Ofwat to allow companies to reflect that engagement (and that which will continue to occur on an ongoing basis from now on) by giving them the flexibility to determine how best to present charges to their customers.

We remain wary of potential incidence effects that could occur with any change to an existing charging regime. Part of the success of a 'retail organisation' will be in managing such changes with its customers. But it is essential that however charges are presented, they are not confusing to customers and that their confidence is maintained in paying for the services we provide.

Our responses to the specific questions you have raised are provided in an annex to this letter. In summary, we generally support your approach, but would advocate 'light touch' approaches wherever regulation is felt to be necessary.

If there are any points you would find it helpful to explore further, we would be pleased to do so.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Jeremy Downer'.

Jeremy Downer
Head of Customer Services



Annex

Sutton and East Surrey Water Responses to Specific Consultation Questions

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

We generally agree with the proposed approach to the development of charge arrangements. It is important that incidence effects are prevented wherever possible and also that we maintain the confidence of our customers with clear but simple charging. We believe it should be left to companies to determine how best to present charges to customers.

We note that the final rules from Defra may not be available until very late on in the process for developing charges for 2015/16. We would be concerned if there were any 'surprises' that appeared at that late stage and we hope that all parties participating in the charges review are clear about the process substantially in advance of the time when the final rules may emerge.

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 noted, most companies have limited notional price changes to no more than inflation over the 5 year period from 2015-20. Therefore we think it unlikely for bill changes for a particular group of customers to exceed 5% on this period. The actual increases on particular groups should be reflected in company Outcomes and Performance Commitments which are likely to have referred to 'value for money'.

We do not believe that such a threshold is appropriate for non-household charges as the change should be down to the retailer to justify with its individual customers.

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

We believe that the threshold should be removed as soon as possible, and certainly before 1 April 2017 for non-household customers.

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

We presume that you are referring to Appendix 8. We are satisfied with a standard format for presenting wholesale charges and accept that this is a valid start point.

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 ?

Yes.

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.

We believe that the practical issues associated with developing and presenting charges will hinder any plans to publish wholesale charges significantly in advance of retail charges. Presuming that the November RPI figure is still the basis for the change in wholesale charges, this is not published until mid-December. Complying with the necessary governance processes from that time normally takes into the New Year. This does not leave much time before retail charges will need to be published anyway.

We are not clear about what charges may need to be published following the introduction of the market reform measures in April 2017. If it is only default tariffs associated with incumbent businesses (or those who have purchased a portfolio of customers from an incumbent business who has exited) then these should be published very shortly after wholesale charges have been presented.

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

No. At the current time we believe that it should be left to individual companies to determine how they should present charges to customers. The engagement carried out with customers for the PR14 business plan and subsequently is likely to have informed companies how customers would like to see their bills. It would seem a retrospective step to therefore introduce regulatory requirements that may contradict what customers have told us.