
From: Matthew Lewis [REDACTED]
Sent: 04 July 2014 16:28
To: Price.Review
Cc: Tim Stephens; Philip Saynor
Subject: SSC response to Consultation on wholesale and retail charges for 2015-16 and charges scheme rules

Please see below the response of South Staffs Water PLC to this consultation:

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 proposal, as it follows on from the work performed during the preparation of business plans. We also agree that the approach will change over time, as the industry better understands what is required of it and as we taken into account our experience of setting tariffs under the new regime.

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?

A 5% threshold in nominal terms doesn't give much opportunity for adjustment in real terms. If RPI is at around 3-3.5% then this constricts the available scope for movement - we propose that the 5% tolerance is set in real terms.

We don't have 'evidence' to back this up, but it is based on our experience of setting tariffs over a number of years and the range of RPI that we have experienced.

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

We would expect any tariff increases exceeding the threshold to reduce greatly after the first few year as tariffs settle down at a cost-reflective level. However, where there are tariffs that are only used by a small number of customers, especially where they are unmeasured, there may be a need for future tariff increases that exceed the threshold, based on reassessments of the volume used by those customers or the impact of low consuming customers becoming metered and so increasing the average consumption of the remainder. Perhaps this would encourage metering for those customers.

We believe that the threshold should be removed within a couple of years to allow appropriate tariff setting to be freed from this constraint.

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

The schedule is quite comprehensive, but we acknowledge the comment on page 39 that you expect many fields to be left blank or contain duplicate figures. It would be interesting to see the range of charging structures within the industry presented in a consistent format.

We note that there is only a section for measured water tariffs, not unmeasured. This backs up our concern about how unmeasured customers fit into the overall plan for competition.

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 acknowledge that this is the fairest way to ensure the costs are borne by NHH customers only but also don't increase incumbent NHH retail costs making them less competitive. While it does complicate the price setting process, it will make it transparent to customers the cost of the Open Water program and allow customers to compare the savings that they feel that are able to make from competition to the cost of achieving this. We do note however that a differential volumetric charge (compared to households) would only apply if such costs were material (i.e. high enough to justify a tariff adjustment). In the early years prior to 2017 this may not be the case, likewise as the market matures the annual operating costs may not be sufficient to warrant a differential.

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 acknowledge that for new entrants to set their tariffs they would need to know the wholesale tariff they are going to be charged. We also feel that it would be fair if retail tariffs for new entrants and incumbents are published at the same time to remove any benefit to the new entrant of knowing its competitors' prices when setting theirs. Therefore, it follows that wholesale tariff publication would be in advance of retail tariffs.

AMP5 tariff publication was dependent on the November RPI figure published in mid-December each year: assuming that the same figure will be used in the next AMP for wholesale tariffs, this will constrict the time available to incumbents to set their wholesale tariffs to give new entrants time to set their tariffs for an early February deadline. Perhaps a different month's RPI figure for wholesale tariffs could be considered.

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

We do not believe that this should be a requirement, but think that this information would be of interest to some customers and perhaps there would be an expectation that it would be provided as the market matures. This information is provided by some energy companies to explain why their bills are increasing, but perhaps the nature of rising wholesale costs in this sector has driven the use of it by retailers to explain that price increases are outside of their control.

We believe that bill formats should be for companies to decide, rather than needing to meet a tick-list of requirements.

Regards

Matt

Matthew Lewis
Regulation and Planning Director
South Staffordshire Water PLC
Green Lane, Walsall, WS2 7PD
Tel: 01922 638282