

Guidance on eligibility – a consultation

Introduction and general comments

This is Bournemouth Water's response to Ofwat's consultation on its proposal to amend the water supply licencing guidance on eligibility so that it will be compatible with the opening of the market for non-household customers in England.

We welcome the opportunity to comment on this important issue and to contribute to establishing a clear understanding and common approach to who is or is not eligible for the market opening in 2017.

However we are concerned that the discussion is commencing at this relatively late stage when the OpenWater programme has been underway for a considerable amount of time and certain decisions have been made and designs implemented. It will therefore be key to ensure that the outcome of this consultation is not at odds with policy decisions already made as part of the OpenWater programme. We discuss this further in our response to question 2. As such we will be happy to provide preliminary feedback on any proposals to further contribute to this process.

We respond to the specific consultation questions below.

Consultation questions

Q1 – Do you have any comments or concerns in relation to our proposed guidance on the threshold requirement?

No. The threshold will rightly disappear at market opening.

With regard to customers in the Dee Valley Water area served by United Utilities or Severn Trent Water for sewerage services the expectations of customers will need to managed effectively to ensure that the reasons for not being able to switch some of the service is well understood.

Q2 – Do you have any comments or concerns in relation to our proposed guidance on what constitutes a single set of premises?

We do, as in our view this is an area where the late-commencement of the eligibility discussion may cause an issue.

The consultation proposal as detailed suggests that each individual Valuation Office rated premise is treated as separate set of premises. If this proposal is accepted each separate set of premises will be given a unique SPID (supply point identification number), and this is

contrary to what is laid out in OpenWater's MAP2 Wholesale-Retail Code (Part 4: Market Terms).

This would mean that large sites that have separately rated premises within them may have more than one SPID allocated to them. This would mean that a large site may be able to have multiple retailers serving them; a situation that has not been envisaged by OpenWater.

Additionally, this may also prevent customers at these sites potentially taking advantage of large discount wholesale tariffs as they are effectively disaggregated to the lowest denominator. Retailers may be able to aggregate the sites back up to a single large premise but will be powerless to change individual SPID tariffs set through the market operator.

Whilst numbers of affected premises might be relatively low we are of the opinion that this is an important issue.

Our preferred approach is that an aggregation methodology, similar to the Water Supply Licensing (WSL) rules is used. In this case a large site with multiple rated properties (due to expansion etc.) is clearly a single premise in terms of water and sewerage service irrespective of number of water meters, discharges etc.

However the WSL rules are complex and can be difficult to explain to customers therefore we propose that a less complicated explanation should be provided in order that customers can understand more easily where they fit in terms of SPIDs.

Q3 – Which factors are relevant when deciding whether or not the principle use of mixed-use premises is as a home?

Q4 – Do you have any comments or concerns on our proposed guidance on the definition of eligible non-household premises?

Combined Q3 and Q4 response

As a general rule we agree with the default position of

- premises are liable for council tax only = household
- premises liable for business rates only = non-household
- premises liable for both council tax and business rates = non-household
- premises not liable for either council tax or business rate = household

However the proposed decision making process for mixed use premises is potentially problematic, as we discuss below.

The example quoted in the consultation effectively highlights the problem by illustrating one way that a water company could assign back a nursing home as a household premise. Clearly a nursing home known to a water company suggests that its principal use is as a home. This however does not reflect that that the nursing home may be a commercial business either individually or as part of a major chain. In this case it is clearly a non-

household operation for which a national player may wish to source a single retailer. By taking the approach proposed in the consultation some incumbent wholesalers may assign the nursing home as household and therefore deny the business the opportunity to switch.

We therefore question whether, to ensure consistency across the market, it would not be better to simplify the proposed eligibility rules to purely those bulleted above.

Q5 – Do you have any further comments on concerns in relation to the proposed changes we are making to this guidance?

In the 2014 price review separate retail revenue allowances were made for non-household and household customers. This was based on existing definitions and interpretations of such guidance as detailed in the “2014 price review cost allocation for retail and wholesale price controls” issued by Ofwat in March 2014. Specifically item 4.2 of this guidance detailed that for the purposes of separating retail costs, companies should continue to use the regulatory reporting definition of customers used previously in the June Returns.

To illustrate our point, part of this definition was to include multiple household premises, for example blocks of flats having only one standing charge, in the non-household control. These would then be classed as non-household and as such allowed revenues are based on this definition.

There is therefore a risk that by changing property definitions half way through the current control period allowed revenues, and companies’ ability to comply with them, may be affected in both household and non-household revenue controls.

Summary

To summarise, in our opinion;

- the overall proposal is sound
- disaggregation will compromise the success of market opening
- consistency with the OpenWater proposals is critical
- introducing an element of choice regarding mixed-use eligibility could potentially deny customers retail opportunities, which in turn could create multiple queries to retailers and Ofwat.

*Bournemouth Water
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