

Guidance on eligibility – a consultation

Southern Water's Response

14 April 2015



Southern Water's response to Ofwat's consultation on guidance on eligibility

Overview

We are pleased to provide you with our response to your consultation on guidance on eligibility.

We are generally supportive of the proposed approach, particularly as it seeks to simplify classification, align eligibility with customer expectations, and utilise verifiable third-party data.

However, in our response to the specific consultation questions, we raise a number of issues and pose a number of questions for further consideration.

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

We have no concerns regarding the proposed approach.

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

We are generally supportive of Ofwat's proposal to treat each property that is eligible to be rated separately by the Valuation Office for the purposes of local taxation as a separate set of premises. We believe this simplifies the approach to eligibility and provides greater transparency for all market participants.

However, as the consultation acknowledges, the proposed rule regarding the extent of a premises when the threshold requirement does not apply (part 3.1) represents a change in Ofwat's guidance, and will result in disaggregation in some instances.

We are pleased that Ofwat recognise this will represent a problem for the appointed company or the licensee in some instances, and welcome the proposal that where a company supplies several properties through a single supply point these properties should be defined as a single set of premises. This recognises that separating water supplies is impracticable and cost-prohibitive in many of these cases, and will therefore help avoid a number of difficult charging and billing issues that would otherwise arise. Nevertheless, if such a single set of premises comprises both household and non-household premises, the company/licensee will need to consider principal use in order to determine whether to classify the single set of premises as household or non-household.

We note that premises can include buildings or land (part 3), but would ask whether the wording in the draft guidance is sufficiently comprehensive to cover all types of service point not associated with a building; e.g., cattle troughs, and other types of watering point located away from any physical structures.

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

We support Ofwat's recommended approach of initial assignment of "mixed-use" premises to the non-household class, then assigning sub-sets to household using desk-based research

where this suggests the principal use is as a home. We agree that additional evidence-gathering may be required in some cases, either from the customer or a site visit.

We believe Ofwat have identified the principal relevant factors when deciding on the principal use of premises; namely:

- Whether the household part is dependent in some way on the non-household part
- The relative levels of business rates and council tax (where applicable)
- Any evidence such as from photographs, floor plans, etc.

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

In making the initial classification of premises prior to the planned expansion of the market in April 2017, we are not clear from the draft guidance whether it is acceptable for companies to simply use the LGFA88 classifications of “non-domestic” and “domestic” to allocate premises to the non-household and household classes respectively; i.e., are companies expected to do more investigation at this stage regarding the classification of these classes of premises.

We raise this question because we note the working draft of the guidance states that Ofwat considers the classifications made to administer local taxation can be used **“as a first approximation”** for the classification of premises (part 4.1).

The draft guidance then goes on to say that, in the case of “mixed-use” premises, market participants need to consider whether the principal use is as a home before making a final classification. This appears to imply that companies only need to do additional investigation in the case of “mixed-use” premises, but we would welcome additional clarification in this area.

Turning now to post-market expansion, we further note that in your consultation (section 4.2.1) you say it will continue to be possible for a property that is liable for council tax to be classified as non-household.

We are not expert in local taxation, but given how household premises are defined in the relevant legislation, we would ask the question whether there are any scenarios in which premises classified as “non-household” under the LGFA88 could be correctly classified as “household” under the water industry licencing regime.

If this is the case, for the sake of clarity we think the guidance should be clear that the “principal use” question must also be considered for properties classified as “domestic” and “non-domestic” under the LGFA88.

Regarding a single set of premises that will be redefined as several premises under the proposed guidance, we would make the observation that companies will need to carefully manage this transition where the set comprises both household and non-household premises, as this will involve changes to the basis of charge for some of the premises. For example, in the case of a single set of premises not on a joint supply arrangement and on a large user tariff, that comprises both household and non-household premises, there will be bill incidence effects when the household premises are removed from the large user tariff as a result of the disaggregation.

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

Given the particular nature of our operational area, within which we share customers with eight other companies, we have some concerns regarding the potential for premises being classified differently where there are separate wholesalers for water and wastewater.

In advance of the market expansion in April 2017, we will seek to work with our neighbouring companies in order to seek a common classification of premises in those instances where there is an initial difference in classification.

However, Ofwat may wish to consider whether their proposed dispute resolution process needs to be adapted to separately recognise and cater for the potential for this particular type of case post-market expansion.