



Mergers
Ofwat
City Centre Tower
7 Hill Street
Birmingham B5 4UA

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Dear Mergers team

SSE has a subsidiary company - SSE Water Limited - that participates in the water markets under the New Appointments and Variations (NAV) framework and SSE itself has experience of the regulatory approach to mergers in the energy network industries. This letter forms our response to the consultation on Ofwat's proposed approach and statement of methods for assessing water company mergers, in the light of the amendments to the special merger regime arising from the Water Act 2014.

We welcome the increased flexibility of the new Phase 1 element of the special merger process in water and broadly support Ofwat's proposed principles and approach to assessing mergers as well as the proposed statement of methods.

We recognise that the ability to make comparisons continues to form an important element of Ofwat's regulatory approach in carrying out its duties. However, separate accounting and reporting does allow comparisons to be made even when mergers occur so we would suggest that Ofwat gives this due weight when considering the arrangements proposed in potential future mergers. Another aspect of the treatment of mergers is the assessment of benefits in cases where a prejudice to Ofwat's ability to make comparisons has been detected. In these cases, with respect to the timing of benefits, we are not supportive of these being required to be delivered in advance of the normal timescales of returning efficiency savings to customers once they have been realised and revealed as part of the periodic price control process. To do otherwise could act as a disincentive for mergers that have a positive customer benefit over the medium term, which the revised mergers regime is itself seeking to avoid.

I hope these comments are helpful.

Yours sincerely

Aileen Boyd
Regulation Manager