



Ynon Gablinger
Ofwat
21 Bloomsbury Street
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WC1B 3HF

30 September 2015

Dear Ynon,

Consultation on charges scheme rules for 2016-17 and future developments

We welcome the opportunity to respond to your publication, 'Consultation on charges scheme rules for 2016-17 and future developments'.

It is helpful that Ofwat have acknowledged that 2016-17 will be the first charging year companies must comply with charging rules, and that the rules will be issued late in 2015, so there is no proposal to introduce fundamental changes to existing charging principles and guidelines. The remainder of our response sets out our answers to the questions raised in the consultation.

Q1 Do you have any specific views on the draft rules for 2016-17 included in appendix 2? Are there any other rules that you consider should be included?

In Rule 15, we suggest that another reason why charges might be permitted to differ between large users and other users is where there are (well evidenced) differences in retail costs. This could for example be driven by different levels of retail activity such as different levels of churn, different revenue collection rates, levels of query and contact handling and so on.

Q2 How best can site area-based surface water drainage charges be adopted? And what lessons can be learned from how companies have moved to this basis so far?

As a water-only company we are not directly involved in forming charges schemes for non-households' surface water drainage services, however we support the general principle of billing on the basis of surface area rather than rateable value as it would seem to result in greater cost-reflectivity. Over time, area based charging should create incentives towards more sustainable drainage solutions, with environmental benefits. We note that the government has given guidance that certain community groups and non-household organisations might be protected from area-based charges where that would be in the public interest and this seems acceptable provided the necessary cross subsidies do not have material effects on other customers' bills.

Q3 Do you agree with our proposed threshold for 'significant' bill increase? If not, is there evidence for a more suitable threshold? And how can this be assessed for different customer types?

We believe the 5% threshold is satisfactory in the current low-inflation environment, but continue to advocate an inflation-linked threshold, for example CPI + 3.5%. We note that Ofwat has ruled out an

inflation linked approach. It would however be useful to confirm that the 5% threshold applies to the water bill and sewerage bill separately, not the combined bill.

Q4 Do you agree with our current preference of companies publishing their Board's assurance statements?

We are content with the proposal that companies publish their Board's assurance statements, at the same time as charges schemes are published, which continues our current practice.

Q5 Do you consider that the Board's assurance statement should cover anything else than what we propose above?

We are content with the proposed scope of the Board's assurance statements, which continues our current practice.

Q6 Do you agree with our current preference for companies to submit a statement of significant changes?

We are content with the proposal that companies submit a statement of significant changes as described in A2. Taking into account our thoughts on Q9 below, this should be provided two weeks prior to the end-January publication of charges schemes.

Q7 Do you have any specific views on the proposals included in chapter 4? Are there any other rules or issues that you consider should be consulted on next year?

We have already identified the wholesale elements of special agreements and would not object to providing this data to Ofwat for disclosure on the special agreements register to facilitate retail competition.

We are keen to play our full part in the forthcoming work to develop the charging rules for developer services, access pricing and wholesale charge standardisation.

Q8 Would it be practicable and/or desirable to include all non-primary charges in the wholesale charges scheme?

There could be a variety of non-primary charges across the industry including for example special agreements and non-appointed charges. To promote transparency, we would prefer the option of a standard list of non-primary charges that companies would need to publish. We envisage that charges for hydrant licences, fire hydrants, meter tests, logging and pressure tests, disconnection and reconnections of supplies would be included in such a list but that special agreements and non-appointed business services would not need to feature.

Q9 Do you have any specific views on the requirement to publish final wholesale charges for non-household customers no later than the first week of January?

We consider it very challenging to publish final wholesale charges for non-household customers as early as the end of the first week of January. This is because we cannot finalise wholesale tariffs until the November RPI figure is released and this can be as late as 18th December. This leaves little time to complete and review proposed charges and to complete audit and assurance work that



our Board need to consider prior to their filing their assurance statements. The tight timetable is compounded by Christmas holidays that can reduce the availability of employees, directors and auditors during this holiday period. As little as a further week could make a significant difference to this compressed timetable, so we would propose that final wholesale charges be published at the end of the second week of January.

Q10 Do you agree with our outline proposal that indicative wholesale charges be published in July and October?

We are not opposed to the principle of publishing indicative wholesale charges in advance to help retailers price their offers. However we are concerned about the idea that indicative wholesale charges published in October may only subsequently change for the variation in RPI. We currently build our charges on forecasts of charge multipliers using October records from our billing system as a base. This ensures that we have access to the most recent information and is important for accurate pricing calculations and for us to respond properly to the incentives of the WRFIM. If we had to produce binding charges in October, these would need to be based on July actuals and WRFIM forecast errors would likely be larger.

In the longer term, earlier publication of binding wholesale charges could be achieved if the month for inflation indexation were changed, from the November figure as today, to the observation in October. We appreciate that this would require a licence modification, but could be considered for the next price review.

Yours faithfully,

A handwritten signature in blue ink, appearing to read "Christopher Offer".

Christopher Offer
Director of Regulation