

Our ref. AB/KD

Ynon Gablinger
Ofwat
21 Bloomsbury Street
London
WC1B 3HF

Dear Mr Gablinger

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

We welcome the opportunity to respond to your proposals with regard to charges scheme rules for the 2016-17 financial year and beyond.

Overview

We note that this consultation does not propose any fundamental changes to the existing charging principles and welcome this approach. Whilst we accept that it may be necessary to progressively refine the charging rules and framework in future periods, as noted on page 12 of the consultation paper, it would be helpful (to ensure year-on-year comparability of charges and bill stability) if these rule amendments are kept to a minimum.

We agree with the objectives of fairness, affordability, bill stability and transparency outlined in section 2 of the paper. The criteria concerning 'significant' bill increases and consultation with CC Water also seem sensible.

The proposed changes to the timing of wholesale charges publication in future years would clearly pose a challenge. Whilst we understand the need for retailers to have early sight of the indicative charges for the next financial year, the retailers will also benefit from accurate data. Clearly, an earlier publication date for draft charges increases the risk that the indicative tariffs will need to be revised substantially prior to final publication in January and therefore reduces their value. This topic is considered further in our response to questions 9 and 10.

Further comments on consultation queries

Where appropriate, we have commented further on the individual consultation queries below:

Consultation queries 1 and 3 (Q2 is not applicable to DVW)

As noted above, we agree with the broad principles that are set out in section 2 of the consultation paper. These principles are covered below individually:

Fairness and affordability

We have historically taken a number of steps to support vulnerable customers, both through the WaterSure scheme and flexible payment plans. We are also currently consulting with our customers on a Social Tariff, to be introduced from the 2016/17 financial year.

It is sensible to ensure that charges remain reflective of the costs associated with the service provided and this principle should guide any further evolution to the charging rules. As noted above, we believe it is important to minimize annual changes to the charging rules to ensure that we can provide our customers with bill stability throughout the AMP.

Stable and predictable

We believe that the threshold for 'significant' bill increases set last year (5%) remains appropriate and will ensure that proportionate impact assessments are conducted in respect of customers facing bill increases in excess of this threshold. These assessments will help us to develop our strategy to mitigate these impacts and, ultimately, to communicate with the affected customers.

Transparent and customer focused

We agree with the consultation requirements specified; we will continue to engage with CC Water during the charging process and ensure that their comments, and those of the Customer Challenge Group, are reflected in the final charges scheme where appropriate.

We will continue to publish our charges scheme on our website in a transparent way and to provide flexible payment plans to support our customers. As noted on page 17 of the consultation paper, we also offer a single occupier assessed charge.

Consultation queries 4, 5 and 6

We support the continued publication of a Board assurance statement alongside the end-user charges scheme. We would prefer that the assurance provided by the statement remains broadly consistent with previous years and are comfortable with the proposed assurance set out in the consultation paper.

Whilst the end-user charges scheme will be published at the start of February 2016 (pg 15), the consultation does refer to the earlier publication of wholesale charges (January 2016, pg 22). It would be helpful to clarify the timing of publication of the Board assurance statement – will an assurance statement be required with both the wholesale and end-user schemes, or solely the end-user scheme?

The proposal to provide a statement of significant changes seems sensible, but with the earlier publication of wholesale charges we would again need clarification as to when this statement is required by Ofwat.

Consultation queries 9 and 10

Earlier publication of the final wholesale charges (in the first week of January) will pose a challenge. Whilst we understand the necessity for this from the 2017-18 financial year onwards, after non-household retail market opening, it would be helpful to understand why earlier publication is beneficial in the current financial year.

Furthermore, given that the retail market opening is only relevant to a small portion of non-household customers for companies based wholly or mainly in Wales (with usage greater than 50Ml), we would also appreciate clarification with regards to the application of these publication deadlines to Welsh Companies.

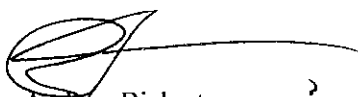
As noted in the overview section, whilst we understand the benefit to retailers of receiving indicative charges in advance of the January publication, the value of these indicative charges will be reduced if they change significantly between July, October and final publication in January. The earlier that publication is required, the greater the likelihood that significant changes will be required and (as noted on page 23) this may also have financial implications for companies through the WRFIM mechanism.

Our preference would be to avoid publication in July and have a single publication of indicative charges in October. This will increase the accuracy of the published indicative charges (and therefore their implied value to the retailers who will use these charges) by reducing the forecast period and therefore improving the accuracy of data used in our charges calculations.

We welcome your continued dialogue on the subject of the charging scheme rules and publication, and look forward to your further guidance on this subject.

In the event that you have any queries on the above responses we can provide further detail as required.

Yours sincerely


Andrew Bickerton
Finance Director