

Our ref: JD/Library/OFWAT

Your ref:

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Dear Ynon

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

Thank you for providing an opportunity to comment on the draft charge scheme rules for 2016-17 before they are finalised. We also welcome early sight of your thinking on future developments.

Our answers to your questions are in Appendix 1. One area we think deserves further consideration is the interaction between requirements under the charging scheme rules and requirements that will apply under the Wholesale-Retail Code. Currently there is a clear risk of duplication of information and a potential risk of providing similar information at different times and with different specifications in order to comply with both documents.

If you would like us to expand on any of the points we make please get in touch with Joanna Campbell, Economic Regulation Manager (JoannaC@waterplc.com, 01737 785692).

Yours sincerely

A handwritten signature in black ink, appearing to read 'J Downer', written over a light blue horizontal line.

Jeremy Downer
Retail Services Director



Appendix 1 – response to questions

1. 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?

We have no further comments other than those provided in response to questions 2 to 6 below.

2. 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?

We have no comments on surface water drainage charges.

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

We welcome your commitment to keep the designation of a “significant” increase in a customer’s bill under review. The rules should reference this commitment. For example, rule 8 could continue to state the current definition as a 5% increase and also include “or an alternative value agreed between the company and the Water Services Regulation Authority” at the end of the paragraph.

For 2016/17 the 5% threshold may remain appropriate only because it has already been used for current year charges and there is no compelling customer evidence that another threshold is more appropriate. The addition to the rules proposed would however create the intended flexibility for future years.

4. Do you agree with our current preference of companies publishing their Board’s assurance statements?

We are content to publish a Board assurance statement in the form outlined at the same time, or before, publication of the charges schemes.

5. Do you consider that the Board’s assurance statement should cover anything else than what we propose above?

We believe the proposed content of the Board assurance statement is appropriate.

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

We are content to provide Ofwat with and subsequently publish a statement of significant changes covering bill increases and any changes in our policy. The proposed rules require this statement to be published three weeks prior to the publication of charge schemes. If, as you propose, the non-household wholesale charges scheme is published by the first week of January this will mean that the final Retail Prices Index (RPI) value needed to confirm the impact will not be known when this statement is provided. The information we provide in the statement would therefore not represent the final view of the impact of charge changes. This may not be a significant issue where inflation is very low (as at present), but this may not be the situation in future years. It would therefore be helpful to understand how significant changes in the level of inflation will be accommodated in these rules.

While publication of the different pieces of information – various charge schemes, Board assurance, statement of significant changes – at different times is feasible we remain

concerned that it could create confusion for our customers. We will of course do our utmost to signpost the information but we believe that some risk of confusion will remain. With this in mind we urge you to consider whether it is beneficial to publish the statement of significant changes prior to publication of charges schemes. Equally we urge you to consider what benefit is created from publishing the non-household wholesale charges scheme three weeks ahead of the other charge schemes.

Further confusion could be created by the potential for duplication between charging information required by these rules and that required by the Wholesale-Retail Code. We discuss this in further detail under question 8.

7. 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 remain of the view that the publication of charges in July for the charging year commencing the following April will be of little overall benefit to trading parties because of the inherent uncertainty that will remain with these forecasts. We would urge Ofwat to adopt a programme that provides relevant and appropriate tariff information, but minimises any additional burden for incumbent companies that multiple publications will undoubtedly bring.

There is widespread agreement that charging for developer services can be improved. This was evident at the recent stakeholder workshop Water UK held to discuss this topic. There were a number of good ideas raised at that meeting and clearly there is appetite to work together to provide a method for charging that improves on the current situation.

Further comments on the topics covered in chapter 4 are made in response to questions 8 to 10 below.

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

A consistent approach is needed between what is required under the Wholesale-Retail Code and what is required under charging scheme rules, as we outline in our covering letter. There is currently a high risk of creating confusion and/or duplication.

The Wholesale-Retail Code requires non-primary charges to be included in the wholesale tariff document. Currently the code states that this should be published by 1 January each year, or otherwise in accordance with the charging rules.

It is undesirable to have to publish charges in two formats – one to comply with the charging rules and one to comply with the code. It would therefore be sensible to consider whether the publishing requirements for wholesale charges should sit either in the code or the charging rules for 2017/18 onwards.

9. 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?

Whilst this may provide some challenge for 2016/17 charges due to its incorporation into a pre-planned board schedule, in general the publication of wholesale charges for non-household customers as proposed should not present us with a problem. We would suggest that clarity is provided in good time in each year on what date this actually is, as it could be interpreted differently by different companies.

Retailers should be asked to consider if the additional three weeks' notice of wholesale charges will be beneficial to them. If the benefits of three additional weeks' notice cannot

be evidenced then we think the risk of confusion is reason enough not to publish final wholesale charges earlier.

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

While we understand the desire for retailers to have an understanding of the costs that they face as early as possible we do not support your proposal without seeing an analysis of the cost and benefit. Our assumption is that indicative charges published in July will be relatively worthless to retailers as they will not have confidence that these indicative charges will be similar to final charges. As you note, there are a number of factors affecting charges that would not be known with any confidence in June/July. Publication of indicative charges will however create a cost to the industry as additional processes would be created in terms of generating and assuring indicative charges. This is a particular concern for us as a smaller company as this would coincide with a particular busy period of the year where we are focused on producing our annual performance report and regulatory accounts.

The new proposal to publish near final charges in October, which can only be updated for the final RPI figure for November in effect brings forward our whole charge setting process. Introducing the Wholesale Revenue Forecasting Incentive Mechanism shows that customers value the accuracy, and in turn stability, of their charges. Bringing forward the charge setting process would mean using more out of date information to set our charges and, in all likelihood, therefore result in greater adjustments for over- or under-recovery of revenue. It would also make the charge setting process, including assurance and Board sign-off, extremely time constrained.