

South East Water's Response to Ofwat's Charges Scheme Rules

September 2015

1 INTRODUCTION

This document provides South East Water's response to the charging scheme rules issued in September 2015.

2 ANSWERS TO SPECIFIC CONSULTATION QUESTIONS

Below are responses to the specific questions raised.

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?

We only have one specific comment as shown below:

- Rule 18(a)(ii) - We suggest that the wording of rules 13(a)(ii) be amended by replacing the words "in the relevant area" by the words "in the supply area of the water undertaker".

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?

No comment as not relevant for South East Water.

Q3. 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?

5% is an acceptable threshold for a proportionate impact assessment to be carried out. Ofwat should ensure that the 5% threshold is not perceived as a target for companies to stay within.

The monetary impact of any increase should also be considered as an increase above 5% could still result in a very modest monetary increase in charges per year – we would suggest a threshold of £5 per year should be used for water only services and £10 for water and sewerage.

Further consideration should be given to Ofwat publishing a minimum range of customer scenarios that should be tested in the impact assessment to ensure all customer scenarios are sufficiently comparable and tested at an appropriate level of detail. We believe these groups should cover the different types of charges – e.g. metered, unmeasured, assessed charge and would not need to specify socio-economic groups as the protection of these groups is managed through social tariffs and other assistance schemes.

The rules should be clear that the impact assessment should only cover charges that the company is responsible for and not include sewerage charges for a water only company or vice versa.

We believe that the water undertaker and the sewerage undertaker should carry out their own impact assessment independently when supply areas overlap; however they should have regular dialogue about any potential bill impacts so that relevant customer handling strategies can be implemented if appropriate.

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

We agree companies should publish their Board assurance statement at the same time as the charges schemes are published.

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

No.

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

We agree companies should publish a statement of significant changes.

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?

No further comments other than those listed below.

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

All **standard** non-primary charges (ie those that form a schedule of rates) should be included in a wholesale charges scheme. Some charges will be specific to an individual case and therefore it will be necessary for some charges to be stated upon application – however the types of charges these relate to should be listed in the wholesale charges scheme.

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?

No specific views.

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

We understand that retailers will want early sight of charges for each year however we are concerned that if wholesalers publish 'indicative' charges in July and October, with the only change allowed after October being RPI then it could lead to charges that are not based on

the most up-to-date and accurate assumptions in relation to property numbers and consumption forecasts. It is acknowledged in section 4.1.2 of the consultation that companies will want to use the most up to date information because, under the wholesale revenue forecast incentive mechanism (WRFIM), companies can incur penalties where the revenue recovered from customers is significantly different from the revenue allowed in final determination.

Therefore if this proposal is adopted it not only means customer charges may not be as accurate as possible but also acts against the aim of the WRFIM which itself is designed to encourage accurate forecasting of charges.

There is also a risk that if retailers start to inform customers of 'indicative' charges in July and October, and these later change it may lead to customer confusion and complaints.

It should also be noted that the overall level of wholesale revenue is known for each wholesaler for each year during 2015 to 2020 and therefore this could be used to understand if charges are likely to change significantly over this period (other than for RPI).