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Ofwat
Centre City Tower
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30th September 2015

By e-mail: ynon.gablinger@ofwat.gsi.gov.uk

Dear Ynon,

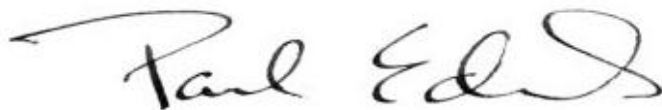
Consultation on charges scheme rules for 2016-17 and future developments

This is the response from Welsh Water to the "Consultation on charges scheme rules for 2016-17 and future developments."

In response to the draft consultation in the summer we raised a concern that there is a lack of clarity over the process that Ofwat will follow to assess compliance with charges schemes and the approach to and form of any subsequent "directions" that could be issued as a result. Previously, Ofwat have published the charging principles that would be used in the approval process. By necessity, these were left in limbo somewhat by the process that was put in place late last year. However, with the change in legislation replacing the approvals process (with the rules based regime coming into effect from 1st November) there is a clear need for a policy statement from Ofwat on how these new powers will be used. For example, do the "Charging Principles and Guidelines" which were issued as the basis for approval of 2013-14 charges schemes still apply?

Our responses to your particular questions are set out in the annex to this letter. Please give me a call if you wish to discuss further.

Regards



Paul Edwards
Head of Economics & Charges

Annex: Consultation on charges scheme rules for 2016-17 and future developments – Specific questions

Charges scheme rules

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?**

As we have stated in the covering letter, the rules should form part of a portfolio of publications which clearly show how Ofwat intends to discharge the new powers that come with the change of legislation that allows it to set charging rules with which charges schemes must comply. The need for transparency around how Ofwat will assess compliance of charges schemes and the nature and form of any “directions” resulting from non-compliance is a matter of particular importance.

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 are not convinced that the benefits of moving to an “individual site area” basis for charging for surface water drainage outweigh the costs of set up and the management of the resulting incidence effects at this point in time. Accordingly, we do not accept the implied presumption in the question that the case for site-area based charging has been made.

There is an economic rationale for reducing surface water drainage in specific circumstances and in specific locations which can be best dealt with by working closely with customers and/or local communities and Natural Resources Wales. This approach has worked well with RainScape¹ and, where circumstances dictate, is more effective than just relying on general price signals. Of course, we welcome the opportunity to understand the lessons that can be learned from the companies that have introduced charges on this basis.

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?**

Yes, we believe that the nominal 5% threshold for determining a ‘significant’ bill increase is appropriate given the current levels of inflation. The level should be kept under review, in particular if inflation started to rise significantly.

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

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

We will publish the Board’s assurance statement with the Scheme of Charges in February. We think that the coverage suggested in the charges scheme rules is comprehensive.

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

Before implementation, we would expect to consult with all relevant stakeholders, including Ofwat, whenever there are changes of charging policy and/or if there are likely to be large incidence effects. It may be appropriate for us to submit a statement of significant changes as a working document and seek comments from both Ofwat and CCWater at this time i.e. much earlier in the process.

¹ RainScape is Welsh Water’s innovative approach to managing the amount of surface water that enters our sewers (see <http://www.dwrcymru.com/en/My-Wastewater/RainScape.aspx>)

The draft rules are not clear as to the purpose of submitting the statement as proposed by Ofwat. If it is to facilitate dialogue then the timing is too late. It is so close to the publication of the charges scheme that there would be insufficient time to have regard to any comments received. In addition, we note that rule A2 suggests that the statement should be published, whilst the discussion in section 3.2 considers only the issue of submission to Ofwat for its purposes and does not consider the case for wider dissemination. We would welcome clarification from Ofwat on what it is proposing as regards publication, but our immediate thought is that whilst we can see the usefulness of the statement as a working document to facilitate dialogue with Ofwat and CCW, we do not see an obvious case for wider publication.

Future developments

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?

Outside of the specific questions below, we have concerns over the suggestion of a pilot publication of disaggregated wastewater charges with the 2016/17 wholesale charges schedule. The Welsh Government's charging guidance to Ofwat, published on 24th August 2015 (after this consultation was drafted) makes it clear that Ofwat should take a proportionate regulatory approach (para 3.9) with "any changes well signalled and subject to appropriate consultation." It is very late in this year's process to suggest a significant change in requirements for publication of charges. This is a contentious area and will, quite rightly, form part of the wholesale charges consultation in spring 2016. A requirement to publish on a pilot basis could be viewed as premature and could confuse customers, particularly if there are changes arising from the consultation.

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

As a matter of course, we publish "non-primary" charges in a single miscellaneous charges schedule. We believe that it is pragmatic to group them together in one place as it is helpful for customers and stakeholders to be able to refer them at a glance. We note that different companies have different approaches and see no reason for Ofwat to be prescriptive in this area.

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?

We will be in a position to publish the final wholesale charges during the week beginning 11th January 2016. This will enable the assurance process to be completed following the publication of the November RPI in mid December.

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

The process for turning the audited year-end data into charges is not a simple process and involves interaction with others such as CCWater. A July publication date is not therefore practical.

We note that Ofwat propose a consultation on wholesale charges in spring 2016. It would make sense to understand exactly what new entrants require from the indicative charges schedule before deciding when it is to be published. The interaction with the published WRFIM will also need to be considered at this time.