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Eligibility Consultation
Ofwat
Centre City Tower
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17 April 2015

Re Guidance on eligibility – a consultation

Thank you for the opportunity to comment on changes you plan to make to the Water Supply Licence's eligibility guidance. The proposed guidance is detailed and is to be welcomed.

Whilst we have some reservations over the introduction of another household/non-household classification to the industry and the confusion this may cause, we do broadly support the main changes being advocated i.e.:

- The use of valuation office (VOA) information to establish the eligibility of customers wishing to switch their water and/or sewerage provider and
- Placing responsibility for establishing a prospective customer's eligibility with the licensee.

We do however have concern that the consultation has concluded that this data will offer companies an expedient approach to develop their own database of eligible customers. This both pre-empts the work of the Open Water Programme and Ofwat's own ongoing engagement with companies on the development of their eligible customer databases.

We are of the opinion that this guidance provides a clear and simple interim tool for customers and stakeholders alike to quickly assess their eligibility to participate in the water supply license market. However, it would need to be replaced at an appropriate juncture with clearer market rules on eligibility and information requirements for water companies.

Companies operating wholly or mainly in Wales

As a company operating wholly or mainly in Wales, in which the 50MI threshold will still apply, the definition of the threshold and the rules around aggregated premises will remain important for us. It would appear that the updated guidance has not substantively changed the definition of the threshold, and this is to be welcomed.

While some simplification of the steps required to establish whether a premises can be aggregated would have been supported, given the small numbers involved we are satisfied that we will be able to apply the policy as defined in the guidance.

It is, however, on the boundary areas of our region where we envisage the most difficulties; with over 20,000 customers (1,100 non-household) receiving a single bill for services jointly provided by ourselves and English companies.



Glas Cymru Cyfyngedig

We welcome correspondence in Welsh and English
Rydym yn croesawu gohebiaeth yn y Gymraeg neu yn Saesneg

Whilst we appreciate that this raises issues that may be beyond the scope of this consultation, it is clear that with the market expanding to include the retail element of the sewerage bill, two assessments of eligibility will be required. This undermines the simple and clear qualities sought in the use of VOA data and further supplementary guidance will be required for these customers to establish market eligibility.

Classification of household and non- household premises

In terms of using VOA data as a basis for eligibility, much will depend on the availability and accuracy of the information itself. Consideration needs to be given to the fact that delays of up to 3 months are permitted between the change of use and the Valuation Office updating their database. There are also anomalies such as the fact that crown properties are zero-rated.

Further, the Chancellor of the Exchequer announced a review of NNDR in the March 2015 budget, opening up the possibility of a move away from a property based tax. This raises a question mark over the long-term viability of using the VOA data as a basis for eligibility.

With respect to the classification of household and non-household premises, we agree with Ofwat's own conclusion that the biggest challenge will surround the accurate classification of mixed use premises. Whilst the use of VOA data provides a useful test, these premises by their very nature can frequently change their designation. The only requirement to investigate these currently would be if a disconnection was being considered.

As already stated we would have reservations of any requirement on the part of the undertaker to independently establish and maintain an accurate database of eligible customers. The costs of managing such a system would be significant.

We would advocate an interim approach until such time as the Open Water Programme has determined and tested its final approach. In this interim approach, all non-household customers would be provided with guidance on the water supply license regime and the VOA based eligibility classification. Customers would then 'self-classify' and any exceptions to the classifications would be dealt with at the application stage through the licensee.

Lastly we note that a shift to definitions based on VOA data would have a small but material impact on the mix of household and non-household premises, and create disparity between the data used for eligibility and price control purposes. Our preference would be a single definition for both and it may be something that Ofwat could review as part of the PR16 process.

Specific question responses

The following are our responses to the specific questions asked in the consultation. Many of these points have already been discussed above.

Q1 *Do you have any comments or concerns in relation to our proposed guidance on the threshold requirement?*

We do not consider that the guidance makes any material changes to the threshold definitions for companies based wholly or mainly in Wales. We welcome the level of detail included and the examples provided.

Q2 *Do you have any comments or concerns in relation to our proposed guidance on what constitutes a single set of premises?*

We would have welcomed a more simplified definition of what constitutes a single premises.

We were unsure as to the need to reassess a customer's eligibility where they buy a plot of land next to existing premises. This would appear an expansion of the existing premises with no implications for the household/non-household classification.

Q3 *Which factors are relevant when deciding whether or not principal use of mixed-use premises is as a home?*

We would be keen to avoid overly complicated definitions of the principal use of a mixed use premises and agree that it is easiest to rely wherever possible on a simple and transparent definition, using VOA data as advocated by Ofwat.

The only alternative would be individual assessment of the premises, using detailed information provided by the customer to calculate the relative size of the household/non-household elements of the property.

Other than for the purposes of customers wishing to appeal their existing VOA based eligibility, we do not consider this to be practical. It would require us to regularly survey premises in a part of the customer base susceptible to change and to establish IT systems to capture and record these designations.

Q4 *Do you have any comments on our proposed guidance on the definition of eligible non household premises?*

We are satisfied with the definitions provided in the guidance and have nothing to add to the comments already made.

Q5 *Do you have any further comments or concerns related to the proposed changes we are making to this guidance?*

We would like to highlight what appear to be some inconsistencies between the latest SIM guidance and some of the text provided in this consultation document.

On page 13 of the consultation document it states “during the PR14 price review period, the SIM will only apply to household customers in England, and to household and non-household customers smaller than 50MI/year in Wales.”

This is not reflected in the SIM 2015 guidance document which states that the non-household SIM is based on the volume of complaints for all non-household customers.

We hope that our response has been of some value. If however we can assist further please don't hesitate to contact us.

Yours sincerely



Mike Davis
Director of Strategy and Regulation.