



Our Ref. AB/KB

Mr Phil Griffiths
Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

11 December 2015

Dear Mr Griffiths

CONSULTATION RESPONSE TO NON-HOUSEHOLD PRICE CONTROL REVIEW

We welcome the opportunity to respond to your proposals with regard to the review of non-household retail price controls. Our comments on each question raised in the consultation paper are summarised below.

Key consultation questions

Question 1

We believe that the review should be restricted to the non-household retail price control and the default tariff price caps; we would not expect other aspects of the PR14 Final Determination to be included within the review.

Question 2

We broadly agree that the review should allow for the reallocation of costs and margins between default tariff price caps whilst leaving the aggregate levels of costs and margins the same, as set out in the Final Determination.

However, where in exceptional circumstances total non-household retail costs and margins have been impacted by factors unforeseen during the Determination process, it may be appropriate to provide an opportunity for companies to raise these for consideration during the review.

Other consultation questions

Questions 3 and 4

Each of the water companies experience differing pressures and underlying costs and this has been reflected in the varying approaches that have been taken in the development of the default tariff caps. We made a conscious decision to ensure that our tariff structure was as simple and transparent as possible, matching it closely to the default tariff caps.

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Page 16 of the consultation document refers to the possibility of requiring companies with fewer tariff bands to increase the number of bands in the name of uniformity across the sector. Suggesting that companies with simple tariff structures should add complexity appears to be counterintuitive. We therefore believe that any exercise designed to increase consistency across the sector should ensure that companies with simple existing tariff structures can retain these if preferred.

Questions 5 and 6

Consistent with the Determination process, we would expect to provide assurance (both external and Board assurance) along with any proposals made in respect of the default tariff caps.

The role of the CCG was important during PR14 and continues to be so. Utilisation of the CCG by companies to ensure robust customer engagement will be important during this review. In line with the previous exercise and with the approach taken by the assurance framework, the use of third party external assurance, along with a board assurance statement, would provide appropriate confirmation that the company has met its obligations.

If, following review and external assurance, a company is satisfied that its current default tariff caps remain appropriate, it seems sensible to allow them to make no changes to their existing tariff caps.

Question 7

A three year duration is appropriate for the non-household retail price control; this would bring it in line with the rest of the price control elements at 2020 and would ensure that amendments required during PR19 could be applied consistently across all aspects of the price control.

Question 8

With regard to the proposed timetable, we note that the review period (between issuing the statement of method in April and requiring a submission in June) is relatively short and falls during a busy period when the statutory and regulatory accounts are produced. It may be sensible to align submission with the regulatory accounts, due in mid-July. The remainder of the timetable seems sensible.

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

Yours sincerely



A Bickerton
Finance Director