
Introduction

We welcome the consultation on the review of non-household retail price controls.

It is our view that it should be for companies to determine the extent of review of allocation of cost and net margin across customer types that they carry out for the Non-Household (NHH) Retail Price Control.

If there are areas where Ofwat require companies to act in a consistent manner, or if there are areas of existing price controls that are considered inappropriate, we would welcome clear and specific guidance from Ofwat in their April 2016 methodology document on what these areas are and how they should be reviewed.

In particular we believe the methodology for the 2016 NHH retail price control review should provide clear and specific guidance on whether:

- it is acceptable to apply the same net margin across all customer types;
- any specific customer types should be defined for particular types of customer;
- any review of customer types is required, and if so what criteria should be applied; and
- there are any specific aspects of a company's particular price controls that need to be reviewed and why.

Our responses to the consultation questions are given below.

Response to Questions

Q1 Should this review focus only on issues relating to the non-household retail price controls and the default tariff price caps?

Yes, the review should only relate to the NHH retail price control, on the basis that the points in our response to Question 2 are addressed.

We agree that all aspects of the wholesale or household retail price controls should be excluded from the 2016 review.

Q2 In considering non-household retail issues, should this review allow for the reallocation of costs and margins between default tariff price caps, but with the constraint that aggregate levels of non-household retail costs and margins remain the same as in the existing controls, consistent with the expectations set out in our final determinations?

This review should allow companies to reallocate costs and margin between the default tariff price caps, as they deem appropriate.

Ofwat mention on page 13 of the consultation that representations have been received from potential market entrants suggesting that the costs and net margin allowed for in the 2014 Price Review may not be sufficient to promote competition.

The default tariffs set in compliance with the NHH retail price control are the baseline against which customers will expect any competitive charges to be compared. Research suggests that price is the biggest influence on why customers choose to switch retailer. We feel that licencees are in the best position to comment on the impact the default tariffs will have on their ability to offer competitive prices,

We believe that Ofwat should take account of comments and evidence presented by existing licencees or potential new entrants and should not rule out a modification to the NHH retail costs and allowed net margin.

We feel that there is a delicate balancing act required of the default tariff price caps, while they must protect customers who do not participate from the market from unreasonable price increases, the level at which default tariffs are set should also allow licencees to compete against them.

Subject to any evidence presented, the NHH retail price control review may be an opportunity to explore how annual increases to the levels at which default tariff price caps are set over the next few years could be used as one of the tools to promote competition as well as a mechanism for phasing out regulation for the competitive market over a number of years, where appropriate.

Q3 How can the transparency in the mapping of tariffs to the default tariff caps be improved?

It is not clear in the consultation whether Ofwat feel it is difficult to map the default tariff to wholesale tariffs or to the end customer tariffs.

There was little guidance in PR14 on how to decide how customer types should be defined, and there are many different potential ways that this could be done, and there is no “correct choice”.

If some form of clear mapping of the NHH retail price control customer types to wholesale tariffs is required then we feel the following points could be considered:

- Each customer type should apply to a single wholesale tariff as will be uploaded to the Market Operator systems. (Note that each tariff may consist of more than one charging elements as defined in the market codes).
- The label applied to the customer type should be the same as the wholesale tariff name.
- If “micro businesses” are a category that are considered to require additional or clearer protection, then companies could be required to show these customers in a separate default tariff price control.

We are not convinced that a complete revision of all customer types would be appropriate at this point in time, given that all parties will have spend time analysing the current customer types, and significant change would require additional work, especially for retailers. However companies should be allowed to make changes as are deemed appropriate.

We would welcome clear and specific guidance from Ofwat on any point that they require to be common and consistent across all companies. For example, if it is specified that all companies must include a customer type for micro businesses, “micro business” needs to be defined to the degree that it is clear whether the categorisation is made on total revenue, water or sewerage revenue or volume of water or sewerage delivered.

Q4 Do you consider it appropriate to encourage companies to increase the consistency in default tariff cap structures and consider carefully whether the diversity in the present levels of default tariff caps is properly justified?

We believe that companies should make their own choices on customer types that define each of the individual default tariff price controls. If there are specific areas for specific companies where Ofwat feel that the existing customer types are inappropriate or unacceptable, we feel that Ofwat should clearly inform the company of any concerns.

Due to the constraints of the Competition Act, companies cannot work together to arrange consistency between themselves. Therefore clear guidance as to what Ofwat considers is best practice is required as part of the NHH retail price review methodology.

Please see our response to question 3 for more detail.

Q5 What information should companies be asked to provide and publish in support of any proposals (including for no change) they make in respect of their default tariff caps?

Each company published very different amounts of information about their methodologies for NHH retail price controls at PR14, the only common information was that covered in table R4.

We believe that companies should be able to decide what information they feel is appropriate to publish, and that any requirement to publish information should be limited to the following points:

- Explanation of any changes to the customer types; and
- An update of Table R4.

Q6 Do you consider it appropriate to allow companies the option not to update their cost and margin attributions and allocations, and so retain their existing default tariff price caps?

We believe that it is for companies to decide to what extent their NHH retail price control needs to be updated.

If there are areas that Ofwat feel are unacceptable in current NHH retail price controls then we would welcome clear guidance on what these are and why they are unacceptable.

One area about which guidance was sought at PR14, was whether net margin can be set at the same level for all customer types. In the Final Determination some companies did so and others did not. We would welcome a clear statement on this issue.

Q7 Is a three-year duration appropriate for the next non-household retail price control and if not what is the most appropriate duration and why?

Yes.

We expect that there will be changes over the next three years in the NHH retail arena. More information will be revealed about cost, the areas in which competition is and is not working effectively, whether existing companies are exiting the regulated arena and how competitive pricing is working compared to the default tariffs.

Three years should be long enough to obtain new information to make a meaningful decision on the future of regulating prices for the NHH retail market and whether or where ongoing regulation is required. It is also short enough to that the information and cost on which regulation is based does become too outdated and inappropriate for setting default tariffs.

Q8 Do you agree with the proposed timetable for this review, with a statement of method in April 2016, draft determinations in September 2016 and final determinations in December 2016?

We are generally happy with the proposed timetable, and welcome the April 2016 publication date for the methodology, however we do not agree with the submission date being in June. The original timetable published in Technical Appendix A6 of the PR14 Final Determinations required the submission of data by 29 July 2016, following publication of the Regulatory Accounts, with the implication that the regulatory account information should be used in reviewing the price control.

Submission of the price control earlier than publication of the Regulatory Accounts would make it more difficult to use final, audited regulatory account information for the price control.

We believe that it is important that the submission date should be after 15 July 2016 and preferably that the original submission date of 29 July 2016 should be reinstated.