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Dear Mr Griffiths

Portsmouth Water response to consultation on Non-household retail price controls

Thank you for the opportunity to respond to the above consultation. We have responded to the 8 questions as below:-

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

Yes. This was the expectation when Final Determinations were established in December 2014 and to change from that assumption could undermine the credibility in the regulatory regime.

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?

Again yes. Companies may have established their retail strategies based on these assumptions and we believe that any change from this expectation would again undermine the credibility of the regime.

Any increase in the magnitude for allowed margins for non-household retail will either impact on customer bills or result in lower margins in retail household or lower wholesale revenue.

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

We are not clear who is requesting this transparency but our initial comment would be that the spreadsheet developed by Ofwat for 2015/16 tariffs setting could be used by each company to show the detail by which the total non-household tariff has been established and how these comply with the allowed revenue caps etc.

This would allow us to explain the rationale of the tariff structure and the costs and margins being recovered from the tariff.

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?

Whilst we acknowledge the issue that there are a very wide range of tariff structures being applied by the industry and the potential benefit to reducing the diversity could be helpful to new retailers in particular, we believe the process of agreeing and revising the structures would be extremely time consuming.

Further as the market evolves we expect to see new operational tariffs being applied by retailers for example – which could result in greater confusion.

Tariff structures and values have evolved over many years and it should be that any wholesaler and / or retailer is able to explain its tariffs if requested.

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?

As per our response to question 3 we would expect to provide to Ofwat the rationale for any tariff structure including the detail of how the costs and margins have been determined. The detail of the derivation of the margin assessment could then be summarised for publication purposes, for example a statement saying “the margin has been allocated based on an assessment of the working capital required for each class of customer,” with summary data if appropriate.

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?

Yes. If the company has reviewed its cost and margin allocation and determined that there is little benefit in any revision then the retaining the existing default tariff price caps should be an option.

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?

On balance we would support a three year duration for the review, though the points made relating to activity in the market and workload are valid and would support the variation in duration.

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?

The timetable looks sensible and we welcome the commitment to specific dates in any month. The date chosen for December of 16th is likely to be after the RPI for November 2016 is published. We would prefer Ofwat to publish its final determination no later than the RPI publication date and ideally earlier in December to allow us to understand any issues before preparing our 2017/18 tariffs.

If you wish to discuss any of the detail associated with this response please contact me.

Kind regards,

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