

# Consultation on the review of non-household retail price controls

## Southern Water's Response

December 2015



## **Southern Water's response to Ofwat's consultation on the review of non-household retail price controls**

### **Overview**

We are pleased to provide you with our response to your consultation on the review of non-household retail price controls.

We have two overarching comments with regard to this review, which we set out below. Following this we provide short responses to the specific consultation questions.

Whilst we recognise the important role that the non-household retail price control will play in the development of competition in the water sector, our view is that the regulatory effort expended by Ofwat and the regulatory burden placed on companies as a result of this review should be in proportion to the size of the market, in line with the principles of Better Regulation. Companies will, in any case, be subjected to competitive pressures as a result of market opening; the regulatory effort expended by Ofwat should be reduced accordingly.

Ofwat are clear that companies remain responsible for ensuring that their default tariffs are cost-reflective and compliant with competition law. Accordingly, in reviewing their default tariffs, our view is that Ofwat should not encourage companies to go beyond the point where there is detriment to cost-reflectivity and an increased risk of non-compliance with competition law.

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

Yes. It would be inappropriate for this review to re-open the other three price controls, as these have been set for five years in the final determinations.

### **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?**

Yes. We think the scope of this review should be limited to that set out by Ofwat in their final determinations.

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

Where companies operate a number of tariffs within a single default tariff cap, transparency could be improved by requiring them to publish information which clearly demonstrates that the weighted average retail charge produced by the customers and tariffs within a given default tariff cap is at, or below, the level of the average retail revenue allowed in the final determination. To facilitate such transparency, Ofwat should prescribe both the information to be provided and the format in which it is presented.

**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?**

With reference to our comments in the Overview above, our view is that companies should not be encouraged to go beyond the point where there is detriment to cost-reflectivity and an increased risk of non-compliance with competition law. It should remain the responsibility of companies to assess and provide assurance on the appropriateness of their tariffs based on Ofwat's rules.

**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?**

With reference to our comments in the Overview above, our view is that the regulatory effort and burden should be in proportion to the scale of the issue. Accordingly, we believe that it would be appropriate for companies to publish and provide Ofwat with:

- A Board assurance statement
- High-level calculations and method statements regarding the allocation of costs and net margins

We do not think it would be appropriate in a competitive market to require companies to publish and provide detailed calculations regarding the allocation of costs and net margins.

We question why Ofwat has required companies to provide evidence of CCG consultation. CCGs were established for PR14 to carry out a specific function. Whilst Southern Water will keep its Customer Advisory Panel (CAP) informed of the default tariff setting process, the role of the CAP has changed to an advisory, rather than challenging one.

**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, provided that companies provide the appropriate assurance.

**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 agree that a three year duration is appropriate for the reasons Ofwat set out in their consultation.

**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?**

Yes. The proposed timetable looks reasonable.

Should you have any queries or regarding our response, or would like to discuss any aspect of it with us, please contact our Head of Economic Regulation, Nikki Deeley, on 01903 272336 or by email [nikki.deeley@southernwater.co.uk](mailto:nikki.deeley@southernwater.co.uk).