SOUTH WEST WATER

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Dear Mr Griffiths

CONSULTATION ON THE REVIEW OF NON-HOUSEHOLD RETAIL PRICE CONTROLS

This letter forms our response to the consultation on the review of non-household price controls and summarises our main points, with responses to the specific questions included as an appendix.

We welcome the opportunity to respond to the consultation and overall are supportive of the proposals outlined for the review of non-household retail price controls. Inevitably with the development of the new market, there is an element of uncertainty around how competition will evolve and how both customers and companies will respond to the new environment. We believe that the approach taken to date, with extensive collaboration across the industry and the use of interim price controls, has helped to manage this uncertainty and we are pleased to see the approach continue.

We recognise that there is potential for complexity across the industry in the way that different companies have constructed tariffs and charges and the impact on customers' abilities to compare and evaluate between retailers. However, the potential incidence effects from attempts to standardise tariff structures across the industry are likely to be problematic and we believe there are simpler alternatives to addressing the issue. The use of customer comparison tools across other sectors is widespread and we see there is great potential for similar applications to be developed for the water industry – for use by customers and competitive retailers alike. Such an approach would provide clarity around the mapping of default tariffs and caps, without creating an overly prescriptive approach to tariff consistency.

In relation to the timetable for the review, we are concerned that the current proposals requiring companies to provide submissions in July 2016 will not allow sufficient time for the published regulatory account information to be taken into account. A shorter time period between draft and final determinations could be considered, or alternatively an earlier indication from Ofwat on the likely data requirements than April 2016 would be beneficial.

We would be pleased to continue dialogue on any of the points raised in our response to the consultation.

Yours sincerely

Iain Vosper
Regulatory Director

APPENDIX: RESPONSE TO CONSULTATION ON NON-HOUSEHOLD RETAIL PRICE CONTROLS

Question 1:

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

It is appropriate that the review should only consider the issues relating to cost allocation within the non-household retail price controls and default tariff price cap, in line with the approach Ofwat envisaged in 2014.

While it may be appropriate to revisit the wider issues around allocation between price controls and customer protection, we suggest that is best considered once the market has started to operate, and there is further clarity around the proposals for household retail competition. Further, extending the scope of the review beyond the current boundaries of the non-household retail control would inevitably have impacts on other price controls (wholesale and household retail) which could potentially cause issues that would not be possible to resolve until 2020.

Question 2:

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?

We agree that this review should allow for the reallocations of costs and margins between default tariffs, as it is in the best interest for customers and the development of the market that appropriate cost allocation and margins are reflected.

Question 3:

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

Whilst information relating to the price caps is already available in the market, it is not easy for customers to find, understand or make comparisons between retailers. However, we would be concerned for any proposals that considered aligning tariff structures across companies, as this could lead to large incidence effects and potentially restrict the market's ability to respond to customer's preferences. Equally, there are commercial considerations that need to be recognized in any proposals for increasing transparency availability of information.

An alternative approach to increasing the transparency for customers and retailers could be through the development of price comparison tools. These are widely used across other industries and can provide customers with a platform to evaluate different price and service options.

Question 4:

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?

As outlined above, we are not convinced that increasing the consistency across default tariff cap structures would be of sufficient benefit to offset the potential negative incidence effects. There is a potential for some retailers to be disadvantaged due to the variation in the cost to serve of customers in different regions – for example, credit risk between different customers may be a result of regional or industry variations. A standard 'one size fits all' approach to default tariff cap structures would not reflect these nuances and could potentially stifle the development and operation of the market.

Question 5:

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?

We agree with this approach to support the implementation and opening of the market and we would expect companies to submit evidence of any changes in costs, changes in processes required to comply with MAP (and associated costs), changes in customer numbers (post eligibility analysis), and changes in required net margin.

Question 6:

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?

In the same way that companies should be able to update the cost and margin attributions to be reflective, companies should also be able to retain their existing default tariff price caps if these are appropriate. In line with Ofwat's broader principles to adopt a proportionate and targeted approach to regulation, there should not be an unnecessary burden on companies to justify a 'no change' in position unless a material risk to customers has been identified or a significant change to costs has occurred.

Question 7:

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?

In principle, we agree that a three-year duration is appropriate for the next non-household retail price control as this provides clarity and certainty for an appropriate period of time over the opening of the market.

An alternative approach could be to introduce the option for an interim review after the opening of the market so that, if it is necessary, unforeseen or adverse impacts could be addressed. However, clear criteria for initiating an in-period review would need to be established

Question 8:

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?

In relation to the time table for the review, we are concerned that the current proposals requiring companies to provide submissions in July 2016 will not allow sufficient time for the published regulatory account information to be taken into account. A shorter time period between draft and final determinations could be considered, or alternatively an earlier indication from Ofwat on the likely data requirements than April 2016 would be beneficial.