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Dear Cathryn

Consultation on the review of non-household retail price controls

Thank you for the opportunity to respond to this consultation.

We have common interest in a successful and timely opening of the market, and with this in mind our key concerns are timetable and cost reflectivity.

Timetable

We think it would be helpful for you to publish:

- your methodology and information requirements for this review by February
- draft determinations ahead of shadow operation in August, and
- final determinations by October 2016.

This revised timetable will allow:

- new entrant retailers to develop their offerings in advance of market opening
- incumbents sufficient time to develop well-grounded proposals taking full account of engagement with their customers and Boards, and
- incumbents time to complete their charges governance processes for publication of the 2017-18 charges rates in January 2017.

Cost Reflectivity

Board ownership of company proposals will require them to take into account the investment that they will already have approved to enable retail market readiness, as well as new knowledge of the ongoing costs of compliant retail operation within the market. It is reasonable to expect that incumbent costs in 2017-18 will be greater in cash terms than those incurred in 2013-14.



It is unlikely therefore that company Boards, particularly those such as ours which at PR14 were at the industry efficiency frontier, will be able to own proposals that are tied to the overall cost envelope determined at PR14.

While we note that you expect incumbent retailers' costs to be reduced by consolidation in the market our joint venture retail arrangements with Bristol Water were developed in advance of 2013-14. The efficiencies created by this explain our low cost to serve and are therefore already baked into our PR14 determination.

We have answered your consultation questions in the attached appendix.

I hope this is helpful and, as ever, would be very happy to answer any further questions that may arise.

Very best wishes,

Andy

Andy Pymer
Director of Regulation & Customer Services

Responses to consultation questions

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

The PR14 Final Determination had a price control for Households - as defined in section A5.4, appendix 5 of "Setting Price Controls for 2015-20" (July 2013) as follows:

Households: These are properties used as single domestic dwellings (normally occupied), receiving water for domestic purposes which are not factories, offices or commercial premises. These include cases where a single aggregate bill is issued to cover separate dwellings having individual standing charges. (In some instances the standing charge may be zero). The number of dwellings attracting an individual standing charge and not the number of bills should be counted. Exclude mixed/commercial properties and multiple household properties, for example, blocks of flats having only one standing charge.

The current price control for non-households is defined as covering all premises that are not households under the definition above.

Since the FD Ofwat has published eligibility criteria for competition. We are currently finalising our market eligible dataset, but our current view is that ~20,000 (i.e. ~20%) of premises attributed to the PR14 non-household price control will not be eligible to switch retailer – the great majority of these are multiple dwellings supplied through a single meter.

It would be helpful for Ofwat to clarify the treatment of such premises, this could be:

- they remain in the retail non-household price control and retain default tariff protection, or
- they are transferred to the household price control and are subject to the ACTS allowances.

Our preference would be that they remain in the retail non-household price control, but that the margins attributed to these customers should be in-line with those allowed in the household control, recognising that there is no competition risk. This means that:

- the retail household control is unaffected
- companies can take into account the specific cost characteristics of these customers in charges - which can be materially different to single households, particularly where the bill-payer benefits from limited liability through the Companies Act.
- these customers do not pay inappropriately for the opening of the market

We note that for PR14 revenue allowances to remain whole the 2.5% average allowed margin (if it remains at 2.5%) will need to be calculated inclusive of the 1.0% margin attributed to customers not eligible for competition.