



Yorkshire Water
Western House
Halifax Road
Bradford
West Yorkshire
BD6 2SZ

T: 01274 692905
M: 07790 616124

Phil Griffiths
Ofwat
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

11 December 2015

Dear Phil

Consultation on the review of non-household retail price controls

Thank you for inviting us to contribute to the review of non-household price controls consultation. We have considered the two key questions and the supporting questions posed in the consultation and our responses are appended to this letter.

In relation to the scope of the price review and the allocations of costs and margins in the non-household controls we would make the following comments;

We agree that unless material evidence is presented the review should focus on issues relating to non-household price controls and the default tariff caps. Where material evidence is found by a company, either at this point in time or in the future we believe that a mechanism should exist to allow companies to correct any issues that would impact on the best interest of customers or the maintenance of a level playing field. As we move towards opening the largest water retail market in the world we must ensure that our ability to respond promptly to unforeseen issues is maintained.

With regard to levels of evidence required to support any changes, we believe that collation and assurance of evidence should follow established best practise . All statements in relation to compliance should be provided by company boards supported by expert external advice.

Considering the timetable for the review we would prefer the timeline to mirror existing requirements to publish regulatory and statutory accounts (July 2016) as information from these activities will contribute to the review. We are able to meet a June 2016 submission date but would require an opportunity to follow up the submission with assurance statements following the regulatory and statutory accounts completion.

We look forward to the outcomes of the consultation process. If you would like any further details regarding our response please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read "W Kimpton".

Wendy Kimpton
Regulatory Strategy Manager

Consultation on the review of non-household price controls

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

The consultation document states that “we would require persuasive new information to widen the scope of this review”¹ We can confirm that we have not discovered any drivers that would require an extension of the scope.

We have also considered this question from a wider industry level as we move towards and then on from market opening. In this context we suggest that should any company discover incorrect allocations at any point that is not in the best interest of customers or prejudices a level playing field, a mechanism should exist to allow the company to adjust allocations to correct the position.

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?

Based on an improved knowledge base, companies should have the opportunity to review their tariff structures to ensure they are in the best interests of customers. Adjustments between non-household (NHH) tariff bands should be allowed where evidence indicates it is required to ensure that customer best interests are served, and a level playing field maintained. Based on a threshold of acceptable evidence we suggest that an annual review of NHH tariff bands and associated opportunity to adjust should be available.

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

Recent developments in the energy market indicate that simplicity of tariffs should be introduced wherever possible. In line with our methodology, transparency in the mapping of tariffs to tariff caps is best improved by demonstrating a clear link between number of tariffs and the number tariff caps.

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?

As stated above simplicity and clarity of tariffs is in the best interest of customers. This is balanced against the fact that the tariffs must be cost reflective and therefore a degree of inconsistency is unavoidable due to differing costs to serve between regions. Achieving a correct balance between varying costs to serve and simplicity/consistency of tariffs is difficult to achieve. To mitigate this we would suggest that companies regularly review their tariffs to ensure the balance is managed in the best interests of the customers.

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?

¹ Consultation on the review of non-household retail price controls - Section 3.1.4 The rebalancing of default tariff price caps

We agree with the suggested lines of assurance as they are consistent with annual reporting and follow good practise in terms of good governance and assurance procedures. We would ask that commercial sensitivity is considered in respect to the level of information required or shared in the public domain regarding the justification of tariffs. We question the need and practicality of an external consultant assuring company compliance with competition law. It is our view that any statement of Competition Act (CA98) and level playing field compliance should be the responsibility of the board informed by a robust external expert assurance process.

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?

An option to not update cost and margin attributions and allocations should exist. This will allow for the scenario where a robust and externally assured company review finds that it is in the best interests of customers not to alter tariffs.

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?

It is our view that a three year duration to coincide with PR19 would be appropriate, we are also open to different control periods as this would distribute the price control work over a longer period allowing efficient use of resources. A longer price control is acceptable assuming that a mechanism to alter allocations exists for any company that identifies issues regarding level playing field, or needs to adjust tariffs in the best interest of customers.

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?

Meeting the revised timetable for submissions of any changes and supporting evidence by 15 June is possible but it does not align with our regulatory accounts timetable which publishes on 15 July. It would be beneficial to run the two processes concurrently and retain the original draft timetable date for submission of any changes in July. We can meet a submission date of June with the caveat that all of our annual assurance will not be completed and we would need to send a further confirmation regarding our data following completion of our assurance processes.

