

WSSL Licence Fee Consultation Response
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By email: FinanceAndGovernance@ofwat.gsi.gov.uk

9 November 2016

Dear Sir,

WATER SUPPLY AND SEWERAGE LICENSING REGIME – CONSULTATION ON SETTING LICENCE FEES

South West Water (SWW) welcomes the opportunity to comment on the above consultation.

Our summary comments are given in the accompanying appendix.

If you have any questions or queries on our response, please do not hesitate to contact me.

Yours sincerely,



Iain Vosper
Regulatory Director

APPENDIX – CONSULTATION QUESTIONS

Question 1 Do you agree with our objectives for setting WSSL licence fees. Are there any other objectives you would like to suggest?

Agree.

Question 2 Do you agree that we should use a single basis for charging WSSL licence fees for licences supplying eligible Welsh customers as well as those operating in England.

Agree.

We note in Section 3.1.4 of the proposal to split the WSSL cost 50:50 between undertaker and WSSL licensee.

The activities set out in the cost structure such as managing relationships with the market operator, casework and managing codes are included in the costs of incumbent licence fees.

As such we would expect a corresponding reduction in costs to be seen in the existing licence fee for incumbents. This would ensure costs are equitable as set out in the objectives for the WSSL.

Question 3 Do you agree with our proposals for reconciling licence fees?

Whilst we agree with the reconciliation for differences in WSSL application, we do not think there should be an automatic pass through of additional costs of operation.

We think there should be an incentive to keep the costs of the market low as this will help remove any barriers to entry and ensure the objective of stability is met.

If there is an overspend in the administration of the WSSL market, how this should be dealt with should be consulted with the licensees.

**Question 4 Do you agree with our proposals for setting licence fees based on:
A fixed element covering 10% of the costs of running the WSSL regime; and
A variable element covering 90% of the costs of running the WSSL regime,
based on market share?**

In principle, we agree with a split of fixed and variable cost. It is not possible to comment from the information provided whether the 10% fixed fee is cost reflective.

For the final publication, to give transparency and ensure costs are equitable that the costs that support the 10% fee are set out.

Question 5 Do you agree that wholesale charges paid is the most appropriate basis for calculating the variable element of the WSSL fee?

We disagree.

Wholesale charges vary across the country due to geographical differences. For the same number of customers and volume of water used.

Through using an approach based on wholesale charges, a retailer solely in the South West or Wessex areas for the exact same customer would pay more fees than, say, one in Severn Trent yet the cost drivers to the retailer would be unchanged.

This is therefore not cost reflective and could distort the market as it would make acquisition in the South West less attractive than say the midlands. Other regional examples could also be used.

There are also scale issues with the proposal. By way of illustration, with the proposed approach, a retailer who has only one very large industrial customer would pick up a large proportion of the WSSL fees, yet its actual burden on the WSSL costs themselves to Ofwat may be considerably lower than one that has 100s of customers.

It is our view that customer numbers (i.e. SPIDs or premise numbers) should be the metric by which the variable element is decided.

This is supported by examining the costs for the WSSL administration in Section 3.1.4. Elements such as the disputes, enforcement work and casework are a function of customer numbers; rather than either wholesale charges or wholesale volumes.

An approach using customer numbers (i.e. SPIDs or premise numbers) would better align to the equitable objective, and give certainty to retailers as they could factor in the changes in fees with customer acquisition (or loss) with more certainty.

Whilst there are downsides to using customer numbers as set out in the consultation, their use is more cost reflective of the costs of administering the market, reduces complexity and meets the equitable objective of setting the fees.