

Setting Licence Fees

We welcome the opportunity to comment on how licence fees will be set for WSSL holders. We also welcome the recognition by Ofwat in proposing to delay setting fees until later in 2017/18, to recognise the uncertainty in the first year of market, especially for retailers.

The WSSL Standard Licence Conditions set out that there should be an annual fee, and we agree that this should be set in a clear and definitive manner. However, it may be appropriate to allow retailers to smooth the payment of the fees over the year. We would like to see quarterly payment options be considered.

Response to questions

Q1. Do you agree with our objectives for setting WSSL licence fees? Are there any objectives you would like to suggest?

We agree with the principles.

Q2. Do you agree that we should use a single basis for charging WSSL licence fees for licensees supplying eligible Welsh customers as well as those operating in England? If you disagree, how would you propose we handle WSSL licence fees for licensees supplying eligible Welsh customers?

We agree that there should be a single basis for charging WSSL licence fees for all licensees in England and Wales.

Q3. Do you agree with our proposals for reconciling licence fees?

We agree that any reconciliation should be simple, however we are not clear from the consultation on the proposed detail of reconciliations. There are a number of points on which we would like further clarification:

- Section 3.1.11 of the consultation implies that any difference between budgeted and actual Ofwat costs will be adjusted for in future years' budgets and therefore roll into future fees, whereas section 3.1.10 implies the reconciliation will be carried out using credit or debit notes. The planned approach is therefore unclear.
- If reconciliations are applied through adjustment in the next years' fees, then it is unclear why credit notes would be required.
- It would be helpful if the final process for setting fees was specific as to whether there will be any reconciliation for each licensee between their forecast apportionment and their outturn apportionment of fees, or whether any reconciliation will be solely between over and under recovery of Ofwat costs.

Our proposal is that:

- any over or under recovery in costs is taken account of in the next year's budget for Ofwat costs by adding or deducting the difference, so that the total reconciliation is wrapped up into the next year's budget. This means no credit or debit note approach is required.
- This means that this reconciliation would be apportioned between licensees based on their next year's share of cost, rather than the year in which the variation in cost occurred. We feel that the benefit to keeping this calculation simple outweighs to potential difference in apportionment, and we expect any reconciliation to be relatively small in total.

Q4. 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?**

We agree that this seems a reasonable apportionment of the recovery of costs

Q5. Do you agree that wholesale charges paid is the most appropriate basis for calculating the variable element of the WSSL license fee?

We agree that the mechanism should be simple and believe that data reported from the Central Market Operating System (CMOS) provides enough information on market share for all the participants and is the most efficient way to obtain information.

We do not agree that wholesale primary charges are an appropriate basis for calculating the variable element of the fees. Wholesale charges vary across England & Wales, so a retailer who supplies a lot of customers in the South West Water area would pay more than one who supplies the same number of customers of the same type in the Northumbrian Water area. We feel that apportionment based on the number of supply points (SPIDS) would be more appropriate.