



South Staffs Water

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WSSL Licence Fee Consultation Response,
Ofwat,
Centre City Tower,
7 Hill Street,
Birmingham,
B5 4UA.

By email: financeandgovernance@ofwat.gsi.gov.uk

11th November 2016.

Dear Ofwat,

Thank you for the opportunity to respond to the consultation on licence fees for the WSSL regime.

We welcome the engagement provided with regard to the on-going WSSL licence fee from Ofwat. However Ofwat's licence fee is but one component of the on-going market operation costs. We were very surprised by the scale of costs proposed by MOSL in their business plan which will impact the market significantly. MOSL propose 50% of their £17.5 million estimate is allocated to wholesalers based on the SPID share. Our estimate of our share indicates that this is approximately double the amount funded at PR14 and MOSL's costs for 2017-18 are planned to be similar to the current year despite moving from a development phase to a delivery phase. It is critical for the successful operation of the market and for the full realisation of customer benefits that these projected costs are reviewed and last week we responded to MOSL's consultation on their budget for 2017-18 querying some of the assumptions within their plan.

Please see the following pages for our response to the consultation questions.

Yours sincerely,

Philip Saynor
Director of Finance and Regulation

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 objectives that cover the current scope of work for Ofwat in regulating the new market. Going forward it will be important to look for opportunities to reduce market operation and regulation costs, not just in Ofwat but across CCWater and MOSL as well, especially given the scale of MOSLs proposed costs which significantly and detrimentally impact the market.

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?

The proposed approach appears proportionate.

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

The consultation does not specify how the wholesale element of Ofwat's licence fee is to be recovered and so we assume it follows a similar process to the existing incumbent licence fee. It would be helpful to confirm this.

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?

The proposed approach appears proportionate.

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

Yes, we support the proposed approach.