

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,

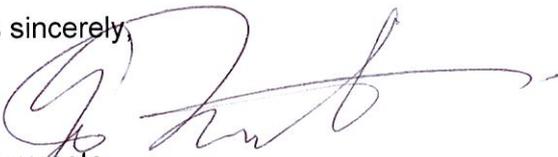
We welcome the opportunity to respond to Ofwat's consultation on future licence fees.

The consultation only discusses Ofwat's licence fee in detail, and touches on CCWater's licence fee. The on-going MOSL costs set out in their business plan are also a significant cost and much greater in scale than Ofwat's costs. Collectively, the on-going fees being levied are highly significant in a market where margins are extremely tight. To put the cost into context, total fees are equivalent to over £15 per business customer. We are highly concerned that levying costs of this scale into this new market will prevent the objectives of the market being achieved.

We have separately responded to MOSLs business plan challenging the assumptions within their plan and the scale of the proposed costs. We recommend that Ofwat launch an enquiry into all on-going fees collectively, as this scale of on-going fees is detrimental to a well-functioning market in the customer interest.

Our responses to Ofwat's specific consultation questions are enclosed below.

Yours sincerely,



Go Muromoto
General Manager

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 Ofwat has provided. We however think that a further objective that seeks to reduce the on-going costs of market operation as the market matures should be included given the scale of the fees across Ofwat, CCWater and MOSL. This is necessary to ensure that the full benefits of the market to customers can be realised.

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?

Yes, we think that the proposed approach in Wales is fair and proportionate.

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

It is vitally important for retailers that Ofwat's licence fee costs do not increase. Strong internal budgeting processes and safeguards are necessary to ensure this does not occur and that the budget for the year is achieved. If there were more entrants than expected then we would of course welcome the reduction in licence fee, but if there were fewer entrants than expected we would be concerned about the resultant increase and its effect on our cash flow. We also have a concern about how the non-exited incumbents influence the fee share for retailers – this is explained further in Q4 below.

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 with the proposed approach as it should ensure a fair allocation of licence fees across retailers for their market share. However some elements remain unclear:

- a) Are CCWater's licence fees applied using the same 10/90% split and based on market share in the same way as Ofwat's fee? The consultation mentions CCWater's licence fees in section 3.1.6 and sets out the allocation between retailers and wholesalers, but does not specify how the retailer share is then allocated between retailers.
- b) The consultation does not mention the effect of non-exited incumbents on the licence fee recovery. A non-exited incumbent will retain a significant embedded market share yet the consultation does not specify whether that incumbent then takes a share of the variable element of Ofwat's fee. If non-exited companies do not bear a share of the licence fee, then this increases the variable element of the licence fee for retailers as the market share is distorted.

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

Out of the four bases considered we agree that 'wholesale charges paid' is the best measure on which to calculate the variable element of the licence fee. Please also refer to our concern about non-exited companies' share in Q4 above.