

1. OVERVIEW

We welcome the opportunity to respond to this consultation on the methodology for the 2019 price control which builds on Ofwat's approach to PR14 and Water 2020 framework.

We support the continued customer centric approach by focusing on the 4 key themes of great customer service, resilience, affordability and innovation.

This document sets out the response of NWG Business to those relevant consultation questions on which we have a view.

In summary, the areas where we would like to see further clarity / guidance are:

- Review of the pricing requirements of the retail exit code
- Wholesaler engagement with licenced retailers
- More challenge to wholesale charges for non-households both from a price control perspective and in relation to some of the data tables

We also feel that it is important to acknowledge that this is the first price control since the opening of the non-household market and believe it is essential to ensure that non-household customers still receive full protection in relation to the non-competitive part of their bill. Wholesale charges represent a significant majority of a non-household customer bill, and it is important that such customers continue to receive protection in relation to these charges.

2. CONSULTATION QUESTIONS

Our response to specific consultation questions are as follows:

Affordability and vulnerability

Q1. Do you agree with our proposal to use the five principles of customer engagement; customer support; effectiveness; efficiency and accessibility to assess how a company is addressing affordability in their business plan?

The consultation document is clear that affordability is one of the four key themes and states that companies should be able to demonstrate the overall affordability of their plans and provide clear evidence of value for money, which includes understanding how their proposals affect different customer segments taking account of the potential bill impacts.

We support the principle of affordability for all customer groups, however the focus in the consultation document and the supporting data tables is very much on household customer groups with little reference to non-household customers.

Wholesalers are required to complete a full set of data tables covering each price control, however there is currently no requirement for this to be split between household and non-household. Rebalancing of costs between household and non-household could therefore be masked in the overall price control. We would like to see more transparency in wholesale price controls and the associated data tables, and specifically that the split between household and non-household is clear.

In terms of bill impacts, Appointee 7 of the data tables requires wholesalers to present the impacts of their business plans on residential customer bills, but there is no requirement for them to present the customer bill impacts for non-household customers. We would like to see the wholesale impact on customer bills included in the data tables in order to provide assurance around affordability to this customer group.

Q2. Do you agree with our proposal to use information and measures, including possible common measures, to assess how a company performs against the five principles in addressing affordability in their business plan?

The consultation document sets out Ofwat's proposed approach on how affordability could be assessed against the five principles.

DELIVERING WATER 2020: CONSULTATION ON THE METHODOLOGY FOR THE 2019 PRICE REVIEW

NWG BUSINESS RESPONSE

One of those principles is that of customer engagement, i.e. how well a company is engaging with its customers and third party organisations on addressing affordability.

The consultation document also clearly states that wholesalers should engage with business retailers as part of their customer engagement process to learn about their views and the views of their customers.

In terms of qualitative and quantitative evidence to support the principle of customer engagement there is no mention of any form of engagement with business retailers. We would like to see some reference to business retailer engagement as part of the evidence evaluation.

Wholesale controls

Q1. Do you agree with our proposals for the form of control for network plus water and network plus wastewater set out in the 'Wholesale controls' chapter and appendix 7, 'Wholesale revenue incentives'?

As stated throughout the consultation document one of the key themes of PR19 is that of affordable bills. Wholesale charges represent a significant proportion of a customer bill, and hence wholesale price controls for water and wastewater are important to ensure that this non-competitive element of the bill continues to offer value for money for customers.

We support wholesale price controls for network plus water and network plus wastewater, however we would like to see more transparency in these controls, specifically around the split between household and non-household. We would also like to see more simplified wholesale non-household price controls which reflects the reduced number of customer groups introduced by Ofwat in PR16.

Retail controls

Q3. Do you support price controls for business retail activities for English water companies that have not exited the business retail market?

We acknowledge that Ofwat are considering setting price controls for business retail activities of incumbent England and Welsh companies that are subject to competition, and recognise that Ofwat will not set price controls for companies that have exited the market.

As stated in the consultation document former customers of companies that have exited the market will be protected by the retail exit code. We would welcome some clarity on when the price requirements in the retail exit code will be reviewed, and whether this is likely to be aligned in some way to the regulated price controls.

Securing confidence and assurance

Q1. Are the business plan and data requirements clear and sufficiently specified?

The consultation document states that companies should complete a full set of data tables covering each price control, however there is currently no requirement for this to be split between household and non-household. Rebalancing of costs between household and non-household could therefore be masked in the overall price control. We would like to see more transparency in wholesale price controls and the associated data tables, and specifically that the split between household and non-household is clear.

Q1a. Are there any areas that we need to look at again?

As stated in our response to question 1 of this section we would like to see more transparency in relation to household and non-household wholesale price controls and associated data tables.

Q1b. Is there any data missing, or included but not required?

Appointee 7 (Proposed price limits and average bills) of the data tables required wholesalers to present the impacts of their business plans on residential customer bills, but there is currently no requirement for companies to present the customer bill impacts for non-household customers.

We would like to see the wholesale impact on customer bills included in the data tables in order to provide assurance around affordability to this customer group.

Appendix 14: Initial assessment of business plans: securing high quality, ambition and innovation.

Q1. Do you agree with the key questions under each of the test areas?

Appendix 14 of the consultation document sets out how Ofwat will assess a company's business plan in relation to these nine key areas; setting out each test area and giving examples of what is considered a high-quality plan.

We believe that in the areas of customer engagement and addressing affordability there are some evidence omissions which we would like to see included in the assessment of a company's business plan.

In the test area of customer engagement, a company's business plan will be assessed based on the quality of customer engagement and participation. In terms of evidence which Ofwat considers support a high-quality plan there is no mention of a company's engagement with business retailers. We would like to see some reference to evidence of retailer engagement in the assessment of a company's business plan.

In the test area of addressing affordability a company's business plan will be assessed based on how well a company can demonstrate that its bills are affordable and provide value for money. As previously stated Appointee 7 of the data tables requires wholesalers to present the impacts of their business plans on residential customer bills, but there is currently no requirement for companies to present the customer bill impacts for non-household customers. We would like to see the wholesale impact on customer bills included in the data tables in order to provide assurance around affordability to this customer group.

NWG Business

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