

23th March 2018

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Emailed to: licensing@ofwat.gsi.gov.uk

Ref: WSSL Regime – consultation on proposed changes to how licence fees are set

Dear Chris,

Thank you for giving us the opportunity to provide our comments on Ofwat's proposed changes to how licence fees are set.

Overall we support Ofwat's proposed changes and we have attached herewith our response to the questions raised in the Consultation.

We have raised a few additional comments regarding the WSSL regime for your consideration. Please do not hesitate to contact me should you need any further clarification.

Yours Sincerely,



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General Comments

1. WSSL Licence Fee

In September 17 we sent a common letter with other business retailers to Ofwat regarding payment of licence fees. As an important matter of principle we felt that all retail market participants must contribute towards the regulatory fees associated with operating the market.

As such, self-supply retailers should pay relevant fees on the same basis as other retailers and new licensees should contribute from the time they gain a licence, even if it is mid-year.

We welcome Ofwat's proposal to setting licence fees for self-supply WSSL licensees and we are supporting the change.

However we have noted Ofwat's confirmation that no licence fee would be charged to new entrants until the next financial year. WSSL Licensees are obliged under Condition 9 of the WSSL standard conditions to pay an annual fee for the "regulatory cost for that year" of each Licence and the exclusion of new entrants from this obligation would appear to be in direct contradiction to this.

Within the context of low retail margins even before significant additional costs of operating in the market are added (e.g. MOSL fees), we feel that this puts an additional and unfair financial burden on existing retailers and set an unhelpful precedent going against the principle of a level playing field.

2. Increase in Ofwat costs

We have noted that Ofwat's estimate of the total costs of regulating the market for 2018-19 will be £1.47m, giving a total estimated cost to the WSSL licensees of £0.735m.

This represents a very significant increase of c50% in comparison to the cost for WSSL licensees in 2017-18 (£0.49m).

This increase seems disproportionate in relation to the expansion in market activity and the Consultation is not providing details of the areas causing such cost increase.

This represents an additional cost for business retailers as a result of market opening, which were not factored into the PR14 cost allowance.

The cumulative impact of the new market structure on the economic model of business retailers is significant and must be reflected to ensure a robust assessment to support business retail price control can be made.

Whilst the PR19 process for appointed companies is well underway, we have not received information of the Price Review methodology for exited business retailers. We would strongly encourage Ofwat to provide additional clarity to exited business retailers as quickly as possible to avoid confusion amongst retailers and business customers.

Creating a robust price control for business retail will require a fundamental review of the activities and associated costs to reflect the new market structure.

3. Licence Fee Calculation

A greater level of detail in how the Licence Fee calculation is made would be helpful (in particular it would be beneficial to understand the number of retailers considered when assessing these costs).

Consultation Questions

- 1. Do you agree with our proposal to simplify the calculation of licence fees by calculating the flat fee element of licence fees by licence for the costs of both Ofwat and CCWater for 2018-19 and subsequent financial years?*

We are supportive of Ofwat's proposal to simplify the calculation of licence fees by aligning the methodologies and calculating the fixed fee element of licence fees by licence (rather than licence holder) for both Ofwat's costs and CCWater's costs.

- 2. Do you agree with our proposal to include wholesale charges associated with transferred businesses in the previous year when calculating market shares for 2018-19 and subsequent financial years?*

Overall we support Ofwat's proposal to include the wholesale charges associated with transferred business in the previous year when calculating market shares, but we would like confirmation from Ofwat that in those cases the exiting retail entity would be exempt from this portion of the licence fee.

Whilst the proposed change provides a solution for calculating market shares in case of transferred business for retail exit, we would welcome a clarification in other cases of transferred business (e.g. interim supply). Would wholesale charges to the defaulting retailer be also allocated to the WSSL licensee?

- 3. a) What are your views on the principle of Ofwat setting licence fees for self-supply WSSL licensees for 2019-20 and subsequent financial years?*

We welcome Ofwat's proposal to setting licence fees for self-supply WSSL licensees as self-supply licensees have benefitted and will continue to benefit from Ofwat's regulatory work in relation to the business retail market.

- 3. b) Do you have any views on how licence fees for self-supply WSSL licensees in relation to Ofwat's costs should be calculated?*

Ofwat licence fees should be paid by self-supply licensees in the same way as other licensees (i.e. 10% flat fee and 90% variable fee based on market share).