



**Consultation under Section 13 of the
Water Industry Act 1991 on proposed
modifications to the licence conditions
for Cholderton and District Water
Company.**

1. Introduction

- 1.1 The Consumer Council for Water (CCWater) is the statutory consumer organisation representing water and sewerage consumers in England and Wales. CCWater has four regional committees in England and a committee for Wales.
- 1.2 We welcome the opportunity to comment on Ofwat's consultation on modifying the licence for Cholderton and District Water (CHL). This is intended to simplify the 2015-20 price control for the company and bring the provisions for setting future price controls into line with those for other companies.

2. CCWater's response

- 2.1 We note that, due its small turnover and the small number of customers it serves, Ofwat did not seek to apply separate retail and wholesale revenue controls for CHL during the 2014 Price Review (PR14) and in Final Determinations. We agree that to do so would have created a level of complexity in the price setting process disproportionate to the company's size¹. Consequently, CHL's price control reflects the pre-PR14 price determination methodology of using the RPI+K formula for the whole of the appointed business.
- 2.2 It is also uncertain as to whether separate retail and wholesale price controls would have been beneficial to CHL's customers at PR14. In general, retail activities account for circa 10% of an appointed company's costs. Retail price controls are based on the average cost to serve with no link to the Retail Price Index (RPI). While CHL customers could have benefitted by having circa 10% of their bill not affected by RPI, Ofwat has given allowances to companies who can provide evidence of higher retail costs caused by factors outside of the company's control. CHL does not have the economies of scale of other companies, and could have received allowances to offset customer benefits derived from removing indexation from retail charges. The overall effect of a separate non-linked retail price control may not, therefore, have been material for customers.
- 2.3 We recognise that in the future Ofwat would like to see consistency in its approach to all regulated companies. The proposed licence modifications would allow Ofwat to
- Designate customer facing retail activities by CHL; and
 - Set separate retail and wholesale price controls.
- 2.4 We note that the licence change would be introduced during the 2015-20 price control period, but not activated until the following price control. This means that customers' bills will be driven by the wholesale RPI+K determination only for the next five years.

¹ [CCWater's response to Ofwat's consultation 'Setting price controls for 2015-20 - business planning expectations'; paragraph 11.1](#)

2.5 We agree with the proposed change to the licence because

- It allows for consistency in the approach to price control regulation with the other 18 water companies in England and Wales, and is transparent to customers.
- While a separate retail revenue control has not been set for CHL for 2015-20, the licence change allows the flexibility to do this at future reviews should circumstances change. The lack of a retail price control for 2015-20 will not prevent any of CHL's non-household customers from switching in new non-household retail market from 2017, should they so wish.

Enquiries

Enquiries about this consultation response and requests for further information should be addressed to:

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