

Ms Sonia Brown
Ofwat
Centre City Tower
7 Hill Street
Birmingham
B5 4AY

30 September 2014

Dear Sonia,

I am writing to you to provide the views of the Customer Scrutiny Group (CSG), the successor to the Customer Challenge Group, on Affinity Water's proposed response to Ofwat's Information Note 14/14 and the latest Draft Determinations.¹

To support our deliberations, the company provided a paper on the Information Note in advance of our meeting held on 17 September 2014. At that meeting, Affinity Water presented on the Draft Determinations and on the Information Note.

For the Draft Determinations, issued by Ofwat on 26 August, Affinity Water briefed the CSG on the following topics:

- Reduction in household retail price controls for domestic customers
- Cost of capital
- Default tariffs for non-household customers
- Asset health index
- Ofwat's request for further information on cost allocations.

Affinity Water also provided a presentation focused solely on its proposed default tariffs for non-household customers.

We then asked Affinity Water employees to leave the room so that the CSG could consider our advice to you without them being present.

Based on the information regarding the Draft Determinations, we noted the company's expectation that the adjustments required to the company's plan

¹ The following CSG members participated in the preparation of this response: Robin Dahlberg (Chair), Jim Barker (EA), Dr Colin Fenn (WWF), John Fox, Karen Gibbs (CCWater), John Rumble, Hazel Smith, Jill Thomas (CCWater) and Damian Williams

would not lead to any price increase or to any reduction in Affinity Water's performance commitments. We were therefore content with that position.

Concerning Information Note 14/14, we noted that Affinity Water intends to keep its current approach to non-household tariffs for its proposed default tariffs. It has not undertaken customer research as there was not thought to be sufficient time to do extensive research before they submit their reply to Ofwat on 03 October 2014. While the CSG believed the consultation would have been desirable, we recognised the time constraints and the need to ensure a timely response to Ofwat. Subsequent to the CSG meeting, the company discussed the issues arising from the Ofwat Notice with the Chief Executive of the local Chamber of Commerce.

We thought there were several aspects of the proposed default tariffs for non-household customers that we would like to comment on.

- We judged five tariffs, based on billing types, to be a sensible approach.
- We thought a lower tariff for the assessed customers who have low consumption could assist small businesses, and was commendable.
- The company advised that there was less regional differentiation in retail costs as activities had now been centralised, and what did drive some slight variation was levels of bad debt which was higher in the South East. We thought the equalisation of tariffs was a positive development.
- We debated the company's advice that they were tending towards a two-year control option to give them flexibility. We recalled that in past consultations, business customers were particularly keen on price certainty, which would argue against shortening the control period. However, we concluded that a two-year approach was unlikely to disadvantage customers because increasing competition should keep prices down, so we were content with a two-year control.

Subsequent to the meeting of the CSG, Affinity Water brought to our attention another item, supply interruptions over 12 hours. The company advised that Ofwat's assessment was that the company's performance level in this area would not be in the upper quartile. Affinity Water said that they did not intend to change their existing commitments, as they were already consistent with the company's best ever historic performance; however, the company said it would monitor its actual performance during the next AMP in light of the company's general performance against their suite of commitments. Accordingly, the CSG plan to monitor this area more closely during the AMP to see whether the company should be encouraged to set themselves a more challenging target.

The outcome of our review is that the CSG does not have any concerns about Affinity Water's planned response to the Draft Determinations or Information Note 14/14 that we wish to bring to Ofwat's attention.

I trust this letter with our opinions meets Ofwat's requirements. I would be pleased to discuss this further if it would be of assistance.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Robin Dahlberg". The signature is written in a cursive style with a large initial 'R' and a long tail on the 'g'.

Robin Dahlberg
Chair, Affinity Water Customer Scrutiny Group

CC Stephen St Pier