



24 June 2009

Mr J Waugh
Inquiry Manager
Competition Commission
Victoria House
Southampton Row
London
WC1B 4AD

Dear Mr Waugh

The Consumer Council for Water welcomes the Competition Commission's (CC) provisional determinations on the Substantial Adverse Effect claim made by Sutton and East Surrey Water (SES). We particularly appreciate the opportunity to comment.

We welcome your view that, although SES has seen revenue fall whilst its energy costs have risen, this has not affected its ability to finance its functions. Moreover, as our submissions made clear, we considered the company's call for its 2009-10 price limits to be raised was inappropriate given that the CC's determination would be delivered shortly before Ofwat sets its price limits for 2010-15. We are particularly pleased that the CC took the view that "a price adjustment would not further the consumer objective" and that "an adjustment could be damaging to the incentives that SES has to be cost efficient".

We acknowledge the CC's findings that SES's decision to renew energy contracts for one year was prudent management action in view of the information available at the time, and that lower demand than forecast at the last price review has affected the company's revenue stream. We consider that Ofwat will now be able to look at these two factors in the context of the company's overall investment and price proposals for the next five years. In doing so, it will have to determine how to make up the shortfall from the last pricing period and how to ensure that SES can finance its functions over the next five years.

To sum up, we are in agreement that while the claim made by Sutton and East Surrey Water can be justified, and interim price increase would not be in the interest of the consumer.

Yours sincerely

David Bland
Chair London and South East