

Licencing and Policy Issues in Relation to the Opening of the Non-Household Retail Market

Peel Water Networks Ltd – Response to Consultation

Date – 17th July 2015

Q1. Yes

Q2. Yes

Q3. No

Q4. In principle yes. However further clarification would be required on how the Certificate of Adequacy would work.

- How would a licensee demonstrate compliance against the CoA?
- Would there be a requirement by the regulator to audit the licensee against its CoA?
- What would happen if the licensee were unable to meet the obligations under the CoA?

The development of the CoA as well as providing customer protection should give reassurance to the wholesale service provider. This is important for the small water companies and NAVs.

Q5. Yes

Q6. No

Q7. Yes

Q8. No

Q9. No

Q10. No

Q11.

- a. Condition Q – Ok with amendment. Potential issue if wholesaler receiving water under a bulk supply arrangement as imposition of Drought Order largely driven by the incumbent supplier and not the NAV.
- b. Condition G – Ok with amendment
- c. Condition I – Potential issue here for small water companies deriving water via a Bulk Supply arrangement. If there is a delay in identifying and repairing leak due to change in billing frequency and/or estimated reading by the retailer then wholesaler would face the prospect of compensating the retailer to pass on to the NHH customer but not being able to recover this from the bulk supplier. This could be a significant issue for a small water company. The appointment condition should be amended for NAVs due to business risk..

Q12.

- a. Condition F6 – Satisfied with proposed amendment
- b. Condition F6 A2A – In principle fine
- c. Condition R 1-3 – In principle fine
- d. Condition R 5.1 – In principle fine
- e. Condition R 5.3 – In principle fine
- f. Condition R 7-9 – Fine
- g. Condition S – Fine
- h. Licence fee – In principle this would be fine however for small companies it does place an additional cost burden if they decide to remain integrated. The financial impact need to be considered or the licence fee for the NAV (wholesale) needs to be reduced so that the overall impact would be cost neutral.

Q13. Yes

Q14. In principle this would be fine however for small companies it will have a disproportionate impact in terms of increased cost burden as new systems, processes and agreements will need to be developed in order to ensure compliance. Small companies by their nature have a small number of staff doing multiple tasks within the business. If compliance required extra staff to be employed to separate and service the small number of non-household customers then this could impact on the company's financial viability.

There is a high likelihood that small companies will consider exiting the NHH market in order to ensure compliance and avoid the increased cost and regulatory burden.

The approach taken with small companies needs to be proportionate.

Q15. The proposals will probably achieve this objective.

Q16. Overall the proposals seem fine. However the implementation will have a disproportionate financial impact on the NAVs that cannot be passed through or recovered. As well as impacting the existing inset appointments it may well stifle the development of any new inset opportunities.

Q17. Issues to be considered where a water company is being supplied by another water undertaker under a bulk supply agreement.

Q18. Consideration needs to be made for the size of the appointee and the increased impact/burden these changes will have. NAVs have to ensure that customers are no worse off than the incumbent supplier this will need to be looked into when wholesale charges schemes are developed.

Q19. Yes I agree.

Q20. Yes I agree

Q21. Future licence applications should include a completed certificate of adequacy. The applicant should also be able to demonstrate that it can comply. How would the applicant be audited?

Q22. No

Q23. Sponsors role should be limited as they will not be directly accountable.

Q24 Customer facing systems should be covered in the managerial competency tests but this should be proportionate to the scale of entry in the market.

Q25. It would depend on what “teeth” the certificate of adequacy would have. How would a company be assessed against the CoA?

Q26. Yes

Q27. Yes

Q28. Yes

Q29. Yes but consideration should be made to the size of the water company

Q30. Yes. but again consideration needs to be made for the size of the company. Is the intention to have a “one size fits all” formal transition plan?

Q31. The cost of having to undertake these activities, whilst necessary, could have a disproportionate impact on the small water companies.

Q32. Would the proposed auction style process not disadvantage new entrants in the market who are trying to grow organically? The larger retailers would be able to mop up customers via this mechanism whilst smaller retailers may not be able to compete as they would be outbid. Would the auction style process also be adopted for the retail customer of water companies that decide to exit the market at opening? Further clarification required on the proposal before decision could be made

Q33. The implementation of the new market arrangements will have an adverse financial impact on NAVs and increase business risk. Further work/consultation will be required in order to fully understand and mitigate the issues.

Q34. No

Q35. Where the cost to service the customer would be disproportionately high.

Q36. Yes

Q37. Yes

Q38. Yes

Q39. For a NAV development of the wholesale charges scheme would be dependent on the incumbent supplier. Early publication by the incumbent would benefit the NAV developing its own scheme.

Q40. Would need to fully understand what would need to be in the Wholesale Charges Scheme and the cost to provide these services.

There is an issue for NAVs in that there is a commitment that the customer can be no worse off when compared against the incumbent provider. The situation could arise where the charges for services that the incumbent sets out in its Wholesale Charges Scheme is lower than what the NAV can actually provide the same service for. If the NAVs Wholesale Charges Scheme is linked to the

incumbant's then the NAV would be providing services to the retailer at a loss and thereby financially disadvantaged . If the cost is higher then the NAV is not demonstrating that the customer is no worse off.

This needs to be addressed.

Q41. The proposed approach appears fine.