



Retail Licensing
Ofwat
21 Bloomsbury Street
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Dear Retail Licensing team

Licensing and policy issues for the opening of the non-household retail market

SSE has a subsidiary company - SSE Water Limited - that participates in the water markets under the New Appointments and Variations (NAV) framework and is sometimes known as an 'inset appointee' or new appointee. It is therefore a relatively new entrant to the water industry and will be affected by the matters raised in the above consultation. We welcome Ofwat's acknowledgement, in the Appendix C glossary of the consultation document that a "new entrant" in the context of discussions in the document does include an inset appointee.

SSE Water's scale in the market is very small compared to the incumbent operators and we would like to see the concept of the 'level playing field' that incumbent water companies are required to consider also being seen as for the benefit of inset appointees as well as retail licensees, as we are also in competition with the incumbent companies at a more upstream level than pure retail entry. For example, in the inset application process, there is no requirement for incumbent water companies to respond within any particular timescales to NAV company requests for formal tariff information and bulk supply terms.

With respect to the wholesale-retail split aspect of 'level playing field' discussions, we would welcome clarity on what is expected of inset appointees on a practicable and proportionate basis and note that this was raised as a concern at the workshop for small companies held on 14 July.

The single most important area of the consultation for SSE Water is the discussion at section 8.3.1 on arrangements for small companies. We support Ofwat's intention to apply a proportionate approach to the application of the various requirements of the new retail market on new entrants. In terms of the consultation question 33, we have the following comments.

Q33 Do you have any suggestions about the best approach to ensuring that the new market arrangements are proportionate for a) smaller wholesale companies and b) small retailers.

An inset appointee is both a retailer and a wholesaler for its appointed areas. In SSE Water's case, it now has 26 inset areas, which when fully built out will typically each have only a handful of small non-household customers such as shops and community centres. Against

that background, we have the following suggestions and comments for the areas raised in the consultation:

Wholesale access charges

We understand the need for inset appointees to provide wholesale access charges and expect that these will have to be based on the access charges that incumbent water companies apply to us. In order to provide our own wholesale access charges to retailers on the same timescales as incumbent companies, we need to have visibility of the incumbent wholesale charges at an earlier time. Clearly, there has to be a margin between the two or the inset appointee will gain no remuneration for the water supply and/or sewerage systems that it supplies in its inset area. One approach that may be helpful is for incumbent companies to set access charges for inset appointees at a discount to the wholesale access charges for retailers and to deliver these to relevant inset appointees a couple of weeks earlier than the generally agreed timeframe for confirming retail wholesale access charges.

Communicating with the Market Operator

We would hope that suitable low volume interfaces e.g. by email and spreadsheet could be devised for inset appointee communication with central systems.

The need to understand and comply with industry code processes and procedures

Companies with limited resources such as inset appointees would certainly find it useful if relevant market documents could contain sections that highlight the specific proportionate requirements on smaller companies, in a similar manner to the way that small company requirements for regulatory accounting submissions are currently set out in regulatory documents.

Supplier of Last Resort (SoLR) Arrangements

We note the ongoing work on this topic and are keen to see some clarity around how the compliance position of companies that have opted for retail exit would be assessed if it was necessary for them to undertake non household retail supply for premises in their appointed areas for a period while the market processes for SoLR ran their course.

With respect to the other topics covered in the consultation, we are in broad agreement that it is appropriate to bring into the conditions of the instrument of appointments requirements to comply with the developing industry codes and to capture the spirit of equivalence. We would note that the instruments of appointment for inset appointees are typically a little different from standard incumbent instruments, reflecting Ofwat's consideration at the time of what would be proportionate. SSE Water's conditions, for example, exclude condition S on the Customer Transfer Protocol. We would hope that this proportionate approach can be maintained when considering proposed amendments to the instruments of appointment for inset appointees.

SSE Water has supported various workshops and update calls that have taken place in recent months and is willing to play its part in ensuring that non household customers in its inset

areas can contract with alternative retailers. However, our ability to do this in an economic manner will be heavily determined by the outcome of Ofwat's deliberations on arrangements for small companies. We look forward to the development of a practicable and proportionate set of measures, against which we can plan with certainty on what will be required of us as an inset appointee with respect to the matters discussed above.

Yours sincerely

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