

# United Utilities response to the Ofwat consultation : Customer protection code of practice – draft for consultation

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## Introduction

United Utilities welcomes the opportunity to comment on the Ofwat consultation: “Protecting customers in the non-household retail market – a consultation on final proposals and a draft customer protection code of practice.”

In our previous response on this topic we highlighted the need to avoid the code becoming overly prescriptive, especially on matters covered within the market codes. We are pleased to note that many prescriptive elements of the proposed code have been removed, including the mandatory requirement for two meter readings a year and restrictions on customer own reads being used for transfers.

We note the proposed mandatory nature of the customer protection code of practice and await the necessary licence change proposals.

Our response below identifies several areas where additional clarification would be beneficial and areas where the decisions taken may have consequential impacts for the market.

## Definition of micro-business customers

We note that a decision has been taken to define a micro-business as a business with less than 10 employees. In our previous response we - and much of the industry - did not favour this definition as this is not information currently held by retailers and is not information readily available in the public domain. Establishing which customers are in this segment and keeping it up to date is a potentially significant task and will add an additional cost burden onto retailers. We continue to believe that using consumption and number of sites would be a more acceptable way to define micro-businesses.

Given that, if this mechanism remains, keeping this information up to date will be difficult, we believe it would be inappropriate for significant sanctions to be imposed on companies, should they fail to correctly identify micro-businesses. Retailers should only be expected to demonstrate they have taken reasonable steps to identify micro-businesses. The requirement to identify micro-businesses does not solely apply at the acquisition stage. Consideration should be given to identify if changes to the MO system will be required to facilitate the extra protections for micro-businesses.

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## Transfer readings

Based on the current proposal, using the transfer read as the final read may not align with the settlement process unless the transfer read is taken on the registration start date (RSD). This leads to a situation where potentially a retailer has to pay a wholesale charge via the settlement process, which it is unable to recover from the customer being transferred. This may be negligible for a small customer, but for a large user this can be a significant cost to the retailer. This was highlighted as an issue in Scotland and the process was modified to address it.

Section 9.2.1 of the proposed Customer Protection Code of Practice states:

*“Outgoing retailers shall base their final bill on the Transfer Read provided by the Incoming Retailer.”*

We believe that the above statement means that the outgoing retailer must use the transfer read provided by the incoming retailer as a final meter read and use this as the basis for a final customer bill. This creates a miss-alignment between the charges the wholesaler makes to the retailer versus the charges a retailer levies on their customer. This miss-alignment is significant and must be addressed to ensure a fair process is established. The wholesale charge made to retailers is based on the date of transfer, whereas this code states that the customer's charge is based on the date of transfer read. These two dates do not have to align. This means that the outgoing retailer may find itself paying the wholesale charge without being able to recover this from the customer. This could be a very significant sum in comparison to the retail margin.

Rather than proposing to change the settlement process we would suggest that both outgoing and incoming retailer should use the same methodology that the central system uses to calculate meter advances. This would then result in both parties using the same final/start read date which whilst it may be an estimate based on the final reading will align with the settlement calculation. This is something customers are used to seeing when they receive a bill covering a period when annual tariff changes are implemented.

## Governance

Further clarity is required as to the governance mechanisms that apply to this code. This is especially so given that this code places potentially onerous requirements on companies backed by licence conditions. Therefore we ask that any change process includes opportunity for sufficient scrutiny by market participants (e.g. in line with the ICP process for the market codes). The timing of any changes to this code will be important, we suggest that unless the change is fundamental that changes are kept to a minimum during the initial stages of the competitive market. In addition where changes are made sufficient time must be allowed for companies to prepare for those changes.

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## Additional comments

Within the code section 7.3.1(a) states:

*“the relevant Terms and Conditions of Supply may be not renewed automatically, without the written consent or request of the Micro-business. Any rollover would be for a maximum period of one year from the expiry of the initial fixed term period.”*

Further clarity is required, as this statement appears contradictory. How would this work in practice? Would it apply if a customer took no action at the end of a fixed term contract and “rolled over” onto a deemed contract?

Within the code section 8.2.2(a) states:

*“8.2.2. If the reason provided by the Outgoing Retailer for submission of the Cancellation Request include that there was an Outstanding Debt due to the Outgoing Retailer by the affected Non-Household Customer, the Outgoing Retailer shall provide the following additional information to the Non-Household Customer:*

*(a) that the Non-Household Customer has 90 calendar days in which to raise a formal dispute with the Outgoing Retailer in relation to an Outstanding Debt before there is a Cancellation;”*

This section of the codes appear to be at odds with our understanding of the market codes. As the cancellation will have already taken effect in this instance. Does this mean that the outgoing retailer should inform the customer that in future if they wish to transfer out and have debt, then they can raise a dispute which would prevent the outgoing retailer from objecting to that transfer?

We also believe that as this section is referring to the market codes it would be best to set the standards out only within the market codes, as the market codes govern interactions between retailers and wholesalers rather than retailers and customers.

Section 9.2.3 of the draft codes states:

*“Where a supply is Metered, a physical Meter Read shall be taken at least once a year.”*

MAP5 does not refer to physical meter reads. Our interpretation of the term “physical meter read” includes visual, customer and remote reading mechanisms. We do not believe that this clause should compel retailers to obtain a “visual read” once a year and would be grateful if you would confirm this.