



SOUTH WEST WATER

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Our ref: IV/SC

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Dear Sir,

CONSULTATION ON WHOLESALE-RETAIL CODE

This letter forms our response on the above consultation.

We have been involved with the codes process since its inception and regularly feed into the ICP and market processes.

As such we have no major concerns on the codes however, we raise a number of points in the accompanying appendix which we consider need addressing and will support a stable and successful enduring market.

If you have any queries on the letter or the attachments, please do not hesitate to contact me or Rob Scarrott (rscarrot@southwestwater.co.uk).

Yours faithfully,



Iain Vosper
Regulatory Director

APPENDIX 1 CONSULTATION QUESTION RESPONSES

Qu 1 Revised structure of the WRC

The revised structure of the Wholesale-Retail Code has 4 schedules.

The Wholesale Contract has been amalgamated into the WRC. This makes the WRC the form of the wholesale contract.

We support this approach and have no material issues.

Qu 2 Wholesale-Retail Code

Our response on each part the code is given below.

Part 1 Objectives, Principles and Definitions

We agree with the overall principles and current definitions.

Part 2 Business Terms

1) Part E, Default and Termination

In the Ofwat policy on credit terms it states that *"that retailers in default with one wholesaler will be in default with all wholesalers who they have entered into a contract with"*¹.

We do not think the codes as written are clear on this point. Part E should be updated to reflect the Ofwat policy document and record (in para 10.1) that if a retailer defaults with one wholesaler, it defaults with all.

2) Credit Terms, Section 9.11.4 and Schedule 28

The codes state "The guarantee will be provided by a Guarantor that satisfies the "Minimum Credit Rating" criteria at all times;"

Pennon Group does not have a credit rating and this requirement acts as a barrier to entry for this credit terms process. As highlighted in our response on the credit terms² consultation to Ofwat we think this requirement should be a 'credit threshold' and the policy and code updated accordingly.

Part 3 Operational Terms

We agree with the terms as currently written.

The market is, however, still in its infancy. We therefore believe it is prudent for plan to be developed to review sections of the operational terms on a quarterly basis to feed in knowledge from the market.

¹ Ofwat (Sept 2016), Credit terms between wholesalers and retailer in the new retail market, page 5

² Louise Rose to Ofwat (7/7/16), "South West Water Group Response – Credit Terms between wholesaler and retailers in the new retail market"

Recent months has seen an upturn in the number of code changes through the ICP. Whilst this is expected in the lead up to the market we consider more thought is needed into planning out what changes go to the panel and when.

The current process seems quite 'reactive'. We believe there would be benefit for 2017 in setting out what the focus of the code panel is each quarter. In our opinion this would help stabilise the market opening in 2017 and ensure the wholesalers and retailer move forward collectively.

Part 4 Market Terms

1) Charge calculation (section 4.12)

We consider sector understanding of the financial settlement process is still in its infancy. At the time of writing only two R1 reports, for example, have been received and discussions are still on going on trade effluent.

Whilst the logic of the calculations appears sound we cannot, at this point in time, state categorically that the code structure and processes is fully fit for purpose for the sector.

Part 5 Code Subsidiary Documents

We agree with the codes as currently drafted, but as stated above there should be a more focussed programme of review in place for the enduring market to ensure it remains efficient and effective.

Part 6 Forms

We think a 'general enquiry' form should be included in the final codes.

This would allow retailers to raise questions or queries for matters that either do not fit in other forms or are related to general business activity (e.g. process around build over, for example; or requests for certain services such as loggers)

Our experience in shadow is that such a form:

- a) Gives retailers an auditable and repeatable process to raise any questions
- b) Prevents existing forms being used for purposes for which they were not designed.

Whilst there is some discussion at a national level about creating many new forms, we do not think the time to implement such a process is appropriate. The sector should be looking to stabilise the current solution and such improvements we consider would be better planned in 2017 when the market is open and its operation is better understood.

Qu 3 Wholesale Contract

We support the current contract as currently written.