Market Monitoring consultation team
Ofwat,
Centre City Tower
7 Hill Street
Birmingham B5 4UA

SSE Head Office
Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ

By email to:
MarketMonitoringConsultation@ofwat.gsi.gov.uk

10 February 2017

Dear Market monitoring consultation team

Monitoring the business retail market from April 2017

SSE plc has a subsidiary SSE Water Ltd, which is a new appointee or 'NAV company' participating in the water industry by becoming appointed to provide local water and/or sewerage infrastructure to redevelopment sites, which are typically being developed to provide new housing schemes. As such, SSE Water is both a retailer to the end customers in its portfolio of appointed areas and a provider of wholesale services downstream from local incumbent water companies, from whom it sources bulk wholesale services. Its scale of operation is therefore much smaller than traditional incumbent water companies and additionally is geographically spread over more than 20 appointed areas.

We welcome the opportunity to provide comments about monitoring of the business retail market. We agree that the Market Operator will be a very useful source of aggregated data about the size and activity in the market and have no particular comments to make on what is proposed about data from this source. We do have some comments on the proposals in respect of data collection from retailers and set these out below and in response to some of the questions, which are attached as an appendix to this letter.

Under the heading of 'retailers' in the consultation, it is suggested that there are two types: those associated with existing water companies; and those holding a retail licence. We think that this classification might need to be expanded to include the situation of existing water companies who have exited from the business retail market – often divesting such customers to an associated licensee. These companies will both hold a retail licence and be associated with an existing water company. In the box on page 19, it states that 'all retailers will need to obtain … a new licence from Ofwat' but this will not apply to appointed companies who do not exit from the business retail market and who are required to provide retail services on a statutory basis in their appointed area only. It could be that Ofwat is more interested in retail monitoring data from licensed retailers who will be operating across a range of wholesale areas but we would welcome clarification of this.

I hope this response is helpful and please let us know if you have any queries.

Yours faithfully

Aileen Boyd
Regulation Manager

Appendix

Consultation Questions

Q1 Are there any other objectives that market monitoring could or should fulfil in addition to those mentioned in section 2.3?

Q2 Do you agree with the issues we propose to monitor? What issues do you think should be monitored particularly closely?

Q3 Do you agree with the type and format of the information we are planning to obtain from the market operator? We welcome views on:

- *the choice of metrics, their usefulness for our assessment of the market and ways of ensuring they are as useful as possible; and*
- *the availability of that information, the opportunities and limitations of obtaining information from the market operator, including sources that could supplement it.*

Q4 What information will retailers hold that will help us achieve our monitoring objectives? We welcome views on:

- *the choice of metrics, their usefulness for our assessment of the market and ways of ensuring they are as useful as possible;*
- *the availability of that information, including where else we could obtain the information that we would like retailers to provide;*
- *the best way for retailers to share that information with us (eg most appropriate format);*
- *whether retailers will be able to segment information in the way we require; and*
- *the best way to make sure the regulatory burden is proportionate, especially for smaller retailers.*

We expect that the best way for Ofwat to obtain information from retailers would be for it to design a template information gathering form, appropriate to the type of retailer and with clear definitions of what is required. Retailers could be required to populate and return this to Ofwat by a certain future date; we support Ofwat's intention for the data requirements to be clarified for retailers before the start of the period to which the monitoring relates.

As mentioned in the covering letter, SSE Water is a NAV company with a portfolio of relatively small sites serving largely residential customers. Across these, the number of business customers eligible to participate in the retail market is very small. In terms of customer segmentation, the majority of the eligible customers are small shops and fall within the micro-business category. We would therefore propose that a proportionate approach for our and other NAV company retail reporting would be to count all the eligible business customers as micro-businesses. If Ofwat wished to set definitions for other types of customer segments that used a readily available proxy such as volume of water consumed over a certain period, then we consider that this type of segmentation could also be provided without undue effort.

Some of the proposed data items in Appendix 2 of the consultation are only likely to happen very rarely across a typical NAV company portfolio – for example: provision of assistance for vulnerable/sensitive customers; dealing with third party intermediaries; and micro-businesses exercising their right to cancel a contract. For the small retailers, we suggest that these items could be made qualitative rather than quantitative such that Ofwat would still obtain information about whether and what type of activity is occurring in these areas without the burden for the small retailer of counting the exact number of occasions. In relation to the last example mentioned, we suggest it be clarified that this data item is to be collected only by licensees acquiring (not losing) customers to avoid double counting.

Q5 We would welcome views on our proposal for informal monitoring, any other tools we could use, and how we might make the best use of the information available.
Q6 We would welcome views on how best we could involve third party intermediaries in our monitoring framework, which information would be best to collect and how we could obtain it.
Q7 We would welcome views on how best to collect useful information on market segments. In particular, we would welcome views on challenges to deriving the market segment information we envisage and ways of overcoming them.
The main type of segmentation affecting NAV companies would be customer type and we think that while it should be relatively straightforward for retailers to be able to differentiate between customers taking different volumes of water, it is more difficult and intrusive to customers to assess how many employees a business customer has – which is the criteria used to define the boundary between micro-businesses and others. In our response to question 4 above, we have suggested that NAV companies should be able to count all their eligible business customers as micro-businesses, as this is certainly the case for the majority of the eligible customers and would not represent a material difference to the national count of customers in different size categories.

Q8 How can we best make sure that relevant information is shared in a transparent and useful manner, whilst also being mindful of commercial and personal confidentiality and without prejudice to competition law?
As much of the data requested is aggregate numbers, we would only see an issue on confidentiality arising if the market monitoring data was made available over small geographic areas. For example, releasing monitoring data per individual appointed area of NAV companies might risk making individual businesses identifiable. Therefore, for NAV companies, we suggest that monitoring data is only collected across their portfolio of sites to preserve confidentiality.