

Our ref: 170830 SEWC/Ofw/PR19

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30th August 2017

David Black
Senior Director, Water 2020
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Dear David

RE: PR19 Methodology Consultation

Thank you for the opportunity to respond to the Ofwat consultation on the PR19 Methodology. The following feedback and comments are those of South East Water Choice and Invicta Water Limited.

We provide enclosed some general feedback on the methodology and in particular its impact on the end users of the service, our business customers and its impact on us as a retailer in the new competitive market. Also provided are responses to specific consultation questions of relevance to us as a retailer.

I hope you find the comments useful. If you would like to discuss any of these points further, please do not hesitate to get in touch.

Yours faithfully



Tanya Sephton
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South East Water Ltd trading as South East Water Choice. Registered office: Rocfort Road, Snodland, Kent ME6 5AH
Registered in England no. 2679874. VAT no. 844 2786 04.

General Comments

Firstly we support the direction of travel proposed in the consultation. An approach that is more targeted and proportionate with appropriate incentives is beneficial for all.

- *Engaging customers*

We support the promotion of enhanced customer engagement and the proposal to include an assessment of customer engagement in the initial business plan assessment. However there is a lack of recognition in the methodology that when considering who their customers are, companies need to also engage with Retailers as a customer of their services.

Retailers might be well informed of their customers' views, in particular their views of their wholesale service, and inclusion of these views not just for the business plan but on an ongoing basis should feature in Ofwat's assessment of business plans.

We would also encourage wholesalers to ensure when communicating their business plans, they are in a clear, accessible and customer friendly version, for household customers, as well as retailers and non-household customers.

- *Incentives*

The methodology states that Ofwat are not proposing to cover retailer satisfaction with wholesaler service through any of the proposed incentive mechanisms and that they will work with MOSL and market participants to ensure wholesalers are encouraged to deliver good-quality service to retailers. We understand this position, however do not support the complete absence of any incentive linked to wholesaler performance in the new market or the satisfaction of retailers or the end user of the service, non-household customers.

There are over 1 million non-household customers and approaching 30 retailers in the new business market who all receive a service from wholesalers. We would strongly support the inclusion of a wholesaler incentive. One simple option for the basis of this incentive would be the number of complaints received per supply point in the market. This complaint data is already collected by CCWater and supply points served by wholesalers is readily available from MOSL.

- *Innovation*

We support the encouragement for companies to produce high-quality, ambitious and innovative business plans. We would strongly encourage wholesalers to consider innovation in tariffs as part of their plans and would like to see appropriate incentives for this.

Transparency of wholesale tariffs is an issue in the new business market which is primarily driven by the complexity and vast range of wholesale tariffs available. Whilst we recognise that prices must be reflective and follow regulatory guidelines, there is room for innovation in the structure of tariffs and for consistency in tariff building blocks. The current complexity in wholesale tariffs will not prevent retailer tariff innovation but will stifle it.

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Specific Consultation questions

- *8.6 Q3. Do you support price controls for business retail activities for English water companies that have not exited the business retail market?*

For companies who have not exited the business retail market, by September 2018 when business plans have been submitted, we support the proposed approach to setting price controls for these companies.

However, these price controls should be comparable to the price requirements of retailers operating under the Retail Exit Code.

- *8.6 Q5. Do you support a three year price control for residential retail activities and business retail activities?*

We support the proposal to determine a three year price control for retail business activities. Given the pace of developments that is likely to unfold in the business market a shorter control period would be appropriate.

- *12.8 Q2. Do you agree with our proposed approach for reflecting how well the company is delivering for customers over the 2015-20 period in the initial assessment of business plans? If not, explain your alternative approach and why this would be in customers' interests.*

We broadly support the approach however there is a lack of assessment of wholesaler performance and its impact on non-household customers. As it is currently proposed the service received by non-household customers and retailers is not part of the assessment of past delivery. The result of this could be a company receiving financial and reputational rewards for being categorised as fast-track or exceptional but not delivering the service non-household customers or retailers require or expect.

We would strongly suggest the inclusion of either an assessment of wholesaler performance against market codes, measured by market performance changes, or the inclusion of companies' performance with non-household customer complaints, within the assessment of performance in the period 2015-20.

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