

Review of the Retail Exit Code
Ofwat
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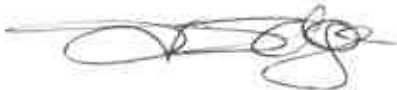
Dear Sirs

Retail Exit Code: Price Protections beyond March 2020

Thank you for the opportunity to participate in this consultation.

Please find attached our response to your questions.

Yours faithfully



H.G. Helen Gillett
Managing Director

Retail Exit Code: Price protections beyond March 2020
Ofwat Consultation: Questions and Affinity for Business response

Q1. Do you consider that future price protections in the REC should be aligned with PR19?

If so, how do you consider this would be best achieved in the context of the options for future protections in the REC (see section 3.4 of consultation)?

Please explain your view.

Answer

Yes, we agree that future price protection in the REC should be aligned with PR19.

Having reviewed your arguments of the options in this area we conclude that using a PR16-based control is at this stage of market development appropriate. We will be pleased to see your views on 'necessary adjustments' as the market is now open and retailers do have a different cost base than previously. These reasonable adjustments may enable you to create a more positive environment for new entrants especially in relation to SMEs and so further your 'Promoting Competition' agenda.

Q2. What is your view on our proposed assessment framework?

Please explain why you take this view.

Answer

We note your assessment framework and consider you have captured the key elements. We note in the promoting competition element your desire to manage down costs and the impact that may have on new market entrants. We recognise the importance of active market participants to make differing offers to customers to encourage market engagement so wish to see balance. We see merit in keeping controls simple across the board.

Q3. Do you agree we should adopt a PR16-based control for SMEs who are transferred customers, that is, using the existing price levels at the starting point for the level of price protection, with any necessary adjustments?

Please explain your view and provide supporting evidence.

Answer

Yes. See views in Q1

Q4. Do you agree we should adopt a PR16-based control for non-transferred SMEs who are otherwise eligible exit area customers, that is, using the existing price levels at the starting point for the level of price protection, with any necessary adjustments?

Please explain your view and provide supporting evidence.

Answer

Yes. See views in Q1

**Q5. How do you suggest we should roll forward the PR16 controls for SMEs?
Please explain your view and provide supporting evidence.**

Answer

Given that the market is still in an early stage of development for SME customers, we are generally supportive of basing the future prices controls on those set at PR16, with adjustments for indexation and the costs associated with the running of the market. The current price controls will be 6 years behind current costs by the time the next control period begins.

While the market has delivered benefits to customers in improved service and some savings, delivering these services have not led to any efficiencies for retailers.

**Q6. Do you believe we should make different adjustments for different usage bands?
Please explain your view and provide supporting evidence.**

Answer

We recognise that participation levels in the market have varied by sector and size of customer, with larger customers able to realise some administrative benefits e.g. from reducing numbers of suppliers etc, that are not available to customers with only one or two supply addresses. The current price controls are easier to explain to large customers than small so we would welcome changes that simplify the controls for all customers.

**Q7. If currently non-exited companies exit the retail market after March 2020, what form of control should apply to their transferred customers?
Please explain your view.**

Answer

The same controls as the transferred customers for any other already exited company are protected by.

**Q8. What approach to price protection do you suggest we adopt for transferred customers who are not SMEs?
Please explain your view and provide supporting evidence.**

Answer

We feel the current form of control has been effective to date and that it would be appropriate to continue with this method.

In general, these customers have been able to benefit from the new market on an individual basis. However we have seen since market opening the development of large consortia creating framework agreements for their members irrespective of volumetric consumption or no of employees who on agreement look to seek commercial advantage for their facilitation services. We have engaged tentatively and remain vigilant as to the impact on our business model but also of non-participation and would not wish to see this development compromise effective market engagement.

Q9. What approach to price protection do you suggest we adopt for eligible exit area customers who are not SMEs?

Please explain your view and provide supporting evidence.

Answer

Same as answer to Q.8