



Retail Exit Code: Price protections beyond March 2020

1. Introduction

- 1.1 The Consumer Council for Water (CCWater) is the statutory consumer organisation representing water and sewerage customers in England and Wales. CCWater has four regional committees in England and a committee for Wales.
- 1.2 We welcome the opportunity to respond to Ofwat's consultation on its proposed approach to price and non-price terms in the default tariffs offered to non-household retail customers in England who are served by a licensee that has acquired customers from an incumbent company that has exited the market.

2. Executive Summary

- 2.1 We agree that customers of incumbent companies should be protected by regulatory price controls, so protection is required for the customers of incumbent companies that have chosen to exit the market and transfer their customers to new retailers. This protection is needed because competition has not yet developed to an effective level.
- 2.2 These protections should be set out in the Retail Exit Code and we agree that they should apply to both transferred customers and new customers in the ex-incumbent's area who have not switched or negotiated a contract. The protection should cover price terms (through default tariffs) and non-price terms (guaranteed standards schemes).
- 2.3 The Retail Exit Code should be reflected in the terms of the deemed contracts for the customers a retailer has acquired. In some cases, CCWater has seen deemed contracts leading to substantial changes in customers' billing arrangements, compared to the arrangements set by the incumbent. As the Retail Exit Code should ensure transferred customers are no worse off, the extended protections should be clear so that customers of acquiring retailers receive tariffs and service standards to at least match those of the incumbent.
- 2.4 We welcome the move to extend these protections beyond March 2020. We consider that the cost based form of price control established at the 2016 review of non-household retail prices is a method that should deliver customer protection whilst continuing to encourage competition.
- 2.5 The price controls in the Retail Exit Code primarily focus on Small to Medium Enterprises (SMEs) who are less likely to switch retailer or renegotiate their existing terms. However, it should not be assumed that non-SMEs are all active, and until the market matures to a point where evidence shows such controls are no longer necessary, default tariffs should continue to be offered to non-SMEs as well. We welcome Ofwat's consideration of both SMEs and non-SMEs in this consultation.
- 2.6 We welcome further consultation from Ofwat on the methodology for these price controls in due course.

3. Responses to consultation questions

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

Yes. Alignment of price controls for the incumbent wholesalers and retailers subject to the Retail Exit Code would provide consistency. This means customers would be protected by price controls for their retail and wholesale charges with reviews of these price controls occurring at the same time.

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

We agree that the assessment of the Retail Exit Code should be based on objectives to deliver:

- Protection for customers that have not engaged with the market. This is needed as these customers could be harmed (in price or service terms) by their lack of engagement.
- Promotion of competition so that customers subject to default tariffs will be able to compare this with tariff and service offerings from retailers, informing their decision whether to switch or not.
- Simplicity and consistency of the default tariffs that are set.
- Price protections that are efficient to apply - so the benefits to customers are proportionate to the cost of implementation.

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

The cost-based method implemented in the 2016 review of non-household retail controls (PR16) offers a form of protection that meets the objectives set out above. The PR16 controls are familiar to retailers and should be easy to implement. These price controls are reflected in the default tariffs that protect customers and facilitate competition in that retailers with costs that are below the price control can enter the market and compete.

Q4: Do you agree that 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 as the starting point for the level of price protection, with any necessary adjustments?

Yes. We agree that non-transferred customers should receive the same PR16-based control as transferred customers, as these non-switching customers require the same level of protection. The PR16 based control for non-transferred customers also meets the objectives of the assessment set out in the response to Q2.

Q5: How do you suggest we should roll forward the PR16 controls for SMEs?

The default tariffs in place for acquiring licensees operating in each wholesale area up to March 2020 should act as a starting point for setting price controls and default tariffs for the 2020-25 period (aligned with PR19).

Adjustments can be made to the default tariffs based on any efficiencies achieved since PR16, as competition should be helping to drive down costs. If efficiencies have been achieved, the default tariff could be adjusted downward to reflect this, so customers receive the benefit.

We note Ofwat is considering increasing the scope of retail costs that are assessed when setting the price control, including assessing the cost of customer acquisition. This may not be consistent with the objectives of price controls that are simple to understand and easy to implement.

While we recognise that adding an allowance for customer acquisition costs could give new entrants without an existing customer base more scope to compete, we would be concerned if this leads to price increases for customers, which goes against the customer protection objective in this assessment.

Q6: Do you believe that we should make different adjustments for different usage bands?

While we recognise that customers with different levels of usage may have different costs to serve, extending the number of usage bands currently applied for default tariffs may add complexity without delivering much benefit.

SME's with low usage are the group of customers that may be less likely to switch and therefore would require greater protection. The current band of 0-5 Ml would apply to these SMEs and if retained, would continue to give these customers the default tariff protection they require.

Q7: If currently non-exited companies exit the retail market after March 2020, what form of control should apply to their transferred customers?

If an incumbent does decide to exit after March 2020, in order to protect non-switching customers, the PR19 price controls for 2020-25 should apply to the acquiring licensee so customers see no change.

To ensure there is consistency with price controls in the Retail Exit Code and the PR19 determinations, Ofwat could apply the same methodology for setting the price control to licensees that have acquired customers, and the non-exited companies. This would mean there is a form on control consistent with the PR19 settlement that would apply if an incumbent exited the market after March 2020.

Q8: What approach to price protection do you suggest we adopt for transferred customers who are not SMEs?

While non-SMEs may be more motivated to engage with the market, as the market is still in its early days, we agree that a form of protection is still appropriate.

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

The PR16 cost based price control, reflecting the different costs to serve higher usage customers and/or larger non-household customers could offer the required protection through default tariffs. Consideration would need to be given to the usage bands that can be used to categorise non-SMEs.

Enquiries

Enquiries about this consultation response and requests for further information should be addressed to:

Steve Hobbs
Senior Policy Manager
Consumer Council for Water
Tel: 0777 817 5006
E-mail: steven.hobbs@ccwater.org.uk