

Review of the Retail Exit Code

Ofwat  
21 Bloomsbury Street  
London  
WC1B 3HF

By email to: [paul.oxley@ofwat.gsi.gov.uk](mailto:paul.oxley@ofwat.gsi.gov.uk)

08 May 2018

Dear Sirs,

**Retail Exit Code: Price protections beyond March 2020**

Thank you for inviting Yorkshire Water to contribute our views on future price protection arrangements in the non-household retail market.

We consider the framework against which Ofwat have assessed the various forms of price protection to be balanced and consistent with Ofwat's obligations and objectives, and would agree there are just four basic options as described.

In general, we support Ofwat's observations and assessment that the market is not yet sufficiently mature to remove price protections provided by the Retail Exit Code (REC), and that an entirely new model of price protection would involve a disproportionate degree of effort.

We are therefore, aligned with Ofwat's proposal that the future price protection arrangements should largely be based on the PR16 model and determinations, but subject to a degree of flexibility that recognises that active and effective retailers are a pre-requisite to a market that delivers real customer choice and benefit.

We have responded to each of the consultation questions in the attached table, and have aimed to do so from a customer benefit perspective rather than that of a market participant. We recognise that the interplay and timing between the REC requirements and PR19 is not ideal, and trust that our responses support the provision of fair and adequate protection to customers, by the simplest and least burdensome method.

We would be pleased to discuss matters further should you consider this may be of benefit.

Yours sincerely,

W Kimpton  
Head of Regulation  
Yorkshire Water

**Table 1**

## Yorkshire Water responses to consultation: Price protections beyond March 2020

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)? Please explain your view.
A1	<p>Yes, we agree the two processes should be aligned, although we believe it should be the other way around.</p> <p>Given the REC applies almost universally across the Trading Parties in the market and PR19 is likely to apply to no more than one or two undertaker retailers (if any), the design of the future price protection arrangements should be based primarily on the objectives and principles of the REC, with any protections necessary as part of PR19 being consistent with those protections provided by the REC.</p> <p>We believe it is important that the application of future price protection should apply equally to customers of existing acquiring licensees, future acquiring licensees, and other licensees, regardless of the timing of an exit, or the history of a customer.</p> <p>Accepting that the PR19 methodology was published ahead of the REC consultation, the PR19 principle of 2020 default tariffs being derived using PR16 as a base seems pragmatic and a logical starting place.</p>
Q2	What is your view on our proposed assessment framework? Please explain why you take this view.
A2	<p>We completely support the objectives described in the assessment framework, and further concur that there are potential conflicts to resolve in balancing the promotion of competition, with the protection of customers that may struggle to access the best deals.</p> <p>We have long been of the opinion, that competition is likely to provide far more opportunities for larger, multi-site and corporate organisations than for SMEs, and particularly micro-businesses and sole traders. We therefore agree that price protection arrangements should focus on the needs of those customer groups most likely to be exposed to poor practices or negative impacts of competitive pricing, and least likely to secure significant financial benefit from switching in the market.</p>
Q3	Do you agree that we should adopt a <b>PR16-based control</b> for <b>SMEs</b> who are <b>transferred customers</b> , that is, using the existing price levels as the starting point for the level of price protection, with any necessary adjustments? Please explain your view and provide supporting evidence.
A3	Yes, we agree a PR16 style control provides an appropriate basis as the starting point of future price protection for transferred SME customers. We do not believe the market is stable enough or sufficiently established to remove price protections (certainly for smaller customers) and rely entirely on market forces yet.
Q4	Do you agree that we should adopt a <b>PR16-based control</b> for non-transferred <b>SMEs</b> who are <b>otherwise eligible exit area customers</b> , that is, using the

	existing price levels as the starting point for the level of price protection, with any necessary adjustments? Please explain your view and provide supporting evidence.
A4	Yes, we agree a PR16 style control provides an appropriate basis as the starting point of future price protection for non-transferred eligible exit area SME customers for the same reasons as above. A similar approach as above for both classes of customer also provides a simple uncomplicated approach.
Q5	How do you suggest we should roll forward the PR16 controls for SMEs? Please explain your view and provide supporting evidence.
A5	PR16 roll-forward plus allowance for cost items not included at PR16 (e.g. MOSL costs, marketing, plus input price inflation allowance). Cost allocation calculated on the same basis across all tariff bands where those costs lie.
Q6	Do you believe that we should make different adjustments for different usage bands? Please explain your view and provide supporting evidence.
A6	Yes, As per above; with protection of SME's maintained beyond 2020 by ensuring all adjustments are allocated to the appropriate tariff bands.
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.
A7	The form of control should be the same as for customers subjected to exit and transferred before March 2020. This ensures no customers are treated more or less favourably simply because their undertaker chose not to exit before March 2020. This would also be the fairest option in relation to licensees and any future acquiring licensee of a non-exited appointee. The default tariffs for customers of a non-exited retailer could be calculated for PR19 on the same basis as would be the case under the REC to avoid inconsistency arising.
Q8	What approach to price protection do you suggest we adopt for <b>transferred customers</b> who are <b>not SMEs</b> ? Please explain your view and provide supporting evidence.
A8	We agree with Ofwat's assessment that larger non-SME customers are more mature in their understanding of, and engagement with the market than SMEs, and given the size of their businesses, less likely to be exploited. However, as the SME market does not yet benefit from the same degree of maturity, we believe the market including larger transferred customers should for the time-being remain subject to the existing PR16 methodology.
Q9	What approach to price protection do you suggest we adopt for <b>eligible exit area customers</b> who are <b>not SMEs</b> ? Please explain your view and provide supporting evidence.
A9	We believe the price protection for new larger eligible exit area customers should continue to be on a fair and non-discriminatory basis.

End