

17<sup>th</sup> May 2018

Benefits sharing consultation  
Ofwat  
Centre City Tower  
7 Hill Street  
Birmingham  
B5 4 UA

**Ref: Putting the sector back in balance: Consultation on proposals for PR19 Business Plans**

Dear Ofwat,

Thank you for giving us the opportunity to provide our comments on Ofwat's consultation on proposals for PR19 Business Plans.

The questions raised in the consultation are primarily aimed for Appointed Companies in preparation of their Business Plan submission on 3 September 2018 and therefore we have no specific comments on the questions themselves.

However, we have set out our comments on the following pages in two areas of the PR19 process which will have an impact on business customers and should therefore be considered in the evaluation of PR19 Business Plans.

Overall, we trust that you will find our response helpful, but as always please do not hesitate to get in touch.

Yours Sincerely,



**Stève Hervouet**  
Head of Regulation

**Contacts**

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## 1. Introducing Effective Market Performance and Incentive Framework to Drive Wholesaler's Performance for Business Customers

In the new market structure, business customers have the opportunity to switch to another retailer if they are not happy with the service they are receiving from their current retailer. However, wholesalers continue to hold a monopoly position on the provision of a number of services which have a significant impact on the outcomes for business customers.

### Market Incentive Framework for Business Customers (B-MeX or equivalent)

We are supportive of Ofwat's introduction in PR19 of a Customer Measure of Experience (C-Mex) and Developer Measure of Experience (D-Mex) with appointed companies, which, together with the Outcome Delivery Incentives (ODI) intend to measure service performance with customers.

However, we were very disappointed to not see anything covering services provided by wholesalers to business retail customers. With the continued monopoly provision of wholesale services, which have a significant impact on customer experience, we would urge Ofwat to include a separate mechanism to cover services to the business retail market (B-MeX or equivalent) to ensure transparency, drive and innovation on part of the wholesalers to improve outcomes for end customers.

Building on the positive impact and experience of such mechanisms in other areas, such a mechanism would need to deliver robust incentives to be fully effective (awarding good performance with penalties for poor performance). This should be a combination of both financial and reputational incentives and we have set out below some key areas to consider for B-Mex:

- **Complaints figures:** Business retailers have to submit monthly and annual complaints figures to CCW, including a breakdown between retail, mixed and wholesale complaints. The level of wholesale and mixed complaint is therefore easily available and should be one of the key metrics of the future B-Mex framework. This would highlight differences in a number of customer impacting areas such as reasonableness of wholesaler policies, deliver of customer facing services such as meter exchanges and more.
- **Bilateral performance:** There should be a clear mechanism to review the bilateral performance of wholesalers for each of the retailers they are providing wholesale services with a particular focus on those areas which have the highest degree of customer impact.



- **Data quality:** Key market data areas (such as meter location) should be one of the key areas of focus of the future B-Mex, and this should have a positive impact on the quality of market data.
- **Other:** Surveying group of customers and retailers on the general satisfaction with wholesalers would drive better wholesale customer service.

As a national retailer with interactions with materially all wholesalers, we can already see significant differences in performance suggesting that such a mechanism could prove to be very effective in helping drive improvement in services.

We have several thoughts on how this could be implemented, including how this could form part of a suite of levers including B-Mex under the Price Control combined with further incentives under Market Code (similar to MPS for retailers).

Finally, we would like to note that whilst there are very significant incentives on retailers in the form of customer's ability to switch as well as large penalties under the new MPS regime (up to 2/3 of net margin allowance), there is currently no material incentive mechanism in place for wholesalers. We would ask that Ofwat explore how to remedy this urgently to help drive the new market forward to deliver better customer outcomes.

#### Wholesalers SLAs

Current wholesalers SLAs (typically around 10 days or more) are often far removed from business customer expectations in terms of timely response and resolution. Furthermore, more than one year after market opening, there still appears to be a large variance in SLAs across related services (e.g. meter exchange is 22 days whilst request for meter alteration is 10 days).

We would therefore encourage Ofwat to use the Price Control process to pressure-test and develop a more coherent set of wholesalers SLAs which are more closely aligned to customer's expectation including benchmarking against performance in other similar sectors.

## **2. Ensuring alignment of Price Review methodology between exited and non-exited Business Retailers**

Whilst the 'legislative vehicle' will invariably be different for controlling default tariffs in exited and non-exited companies, we believe a key principle should be for the core methodology involved to be consistent between companies.

This will avoid any potential challenge around discrimination, minimise confusion for customers amongst the already bewildering complexity driven by wholesaler tariffs, lower regulatory complexity and also ensure retailers only need to handle one approach for setting default tariffs even if there were mergers and/or acquisitions.

We would therefore strongly urge Ofwat to adopt a core principle for the REC Methodology for exited business retailers to mirror the PR19 Final Methodology for non-exited business retailers.