

Submitted via email

First Business Water would like to submit our comments on Ofwat's consultation on the Retail Exit Code. We understand that the UKWRC has put forward and summarised our concerns and suggested proposal. We believe that the REC review is a great opportunity to review the current status of the Non-household retail market. We are sure that you will agree that it has been a challenging journey and as industry we have grown since 2017. With the experience we have embraced as an industry, we believe that it is critical to address some issues within the draft REC.

We are glad to see that the REC has included areas of simplification and increase margin for high and medium users which will enable retailers to effectively recover costs for BAU activities which have been a challenge for all retailers. However, we have great concerns for the proposal of cost allowances for the smaller users which we believe accounts for 85% of the market. We feel that the over proposal with the REC is not addressing the vital issues around the economic cost allowances set at PR16. Costs originally outlined and set during PR14 were based on Wholesalers operating models which did not factor in significant costs which retailer face within the market today. These integrated water companies never had to pay mandatory MOSL fees, MPC fees or take into account FTE costs for processing transactions with CMOS, wholesaler portals and liaising with other retailers. These businesses did not have to factor in customer acquisition costs and dealing with each wholesalers individual pricing models and policies. More importantly these companies benefited from economies of scale for example when selecting and collecting meter reads from providers who previously would have collected both the household and non-household reads. This combined with working capital and collateral requirements on retailers which could result in delays to billing and cash collection resulting in a higher working capital requirement than the original water companies.

We feel that SME customers are aware of the opening of the market, however, they are not incentivised to switch due to the lack of potential savings offered. These customers are strongly motivated by savings which retailers are unable to offer due to the costs involved to serve these customers. In its simplest form it costs the same amount to read a customer's meter who consumes 50m³ per year and that of a customer who consumes 20,000m³ per year. Yet the REC will provide retailers with the opportunity to recover these costs for a 20,000m³ per year user and not for a 50m³ per year user. Without an increase of margin in this SME sector, smaller retailers will be left competing against the larger retailers who have "more commercial muscle" as the REC will look to exclude majority of the market from effective competition which was the very reason for creating this market.

We are hoping that Ofwat can take the above into consideration and review the one off adjustment to the SME users and the additional BAU costs involved within the new market. This will allow retailer to effectively compete and achieve the original Ofwat vision for a successful competitive market.

Please feel free to get in contact with me should you wish to discuss the above.