Do you agree with our proposal to remove the distinction between transferred and otherwise eligible customers in the REC? Please support your answer with evidence.
w2b consider that this proposal, on balance, seems reasonable. There should be no differentiation between customers whether they are transferred or otherwise eligible customers. On balance, the evidence seems to suggest that there will be no discernible adverse effect on customers, with little impact operationally on Retailers. *By removing this distinction, any legacy administrative burdens that Retailers had to provide pricing to these customers would be removed, and pricing could be categorised more effectively by Retailers, allowing greater simplicity in retail pricing structures and increasing transparency for customers.* *By eradicating the distinction between transferred and otherwise eligible customers, this may provide SMEs greater influence to negotiate reductions, discounts and / or alternative terms, as well as allowing Retailers additional flexibility to consider these alternative terms; enhancing their competitive advantage and allowing them to develop their customer services.*
Do you agree with our proposal to remove the distinction between SMEs and non-SMEs in the REC? Please support your answer with evidence.
w2b consider that the removal of the distinction between SMEs and non-SMEs in the REC is sensible. The distinction between SMEs and non SMEs is reliant on data that is difficult to collect from our customers. Given that Retailers need to exert considerable effort, time and resource, to obtain often limited information around customer size and employee numbers, we believe this change in policy is in line with the market principle of efficiency. *Combining this with the view that company size doesn't necessarily drive the volume of water being used, the only sensible option for distinguishing between companies would be to band them by volume used only.* *w2b consider that the lack of SME engagement with Retailers within the market is a direct consequence of the cost to serve these type of customers as allowed for in the default price controls. Therefore, consumption based bandings and definitions are a more sensible route to apply to the categorisation of customers and will allow Retailers the opportunity to more effectively engage with these customers without it becoming burdensome and requiring substantial resource activity.*
Do you agree with our proposal to split the current 0-5Ml band into 0-0.5Ml and 0.5-5Ml? Please support your answer with evidence.
w2b consider the split of the current 'low user' banding into 0-0.5MI and 0.5-5MI as appropriate. The 0-5MI bracket is too expansive when looking at the most common user consumption in the market falls under the bracket of 0-0.5MI. The current market data shows that only 7% of eligible customers have actually engaged in switching, and there is very little movement within the market for users within these lower bandings. *w2b consider that these customers within the lowest user bandings are the ones who are losing out on the advantages of the open market and therefore it would seem reasonable that these customers are given a more bespoke and generous approach to protection.* *By expanding these bandings, and allowing more leeway for competitive pricing, this should allow Retailers to become more effective in the engagement of the 0.5-5ML band.*

By opening up the bandings, w2b consider that the market would remove some of the barriers to engagement for these smaller customers, promoting more open and effective competition.

Do you agree with our proposal to retain a net margin approach to the protections for these customers? Please support your answer with evidence.

w2b support this approach to protecting the customers within the lowest usage bracket. w2b envisage that by 2020, the market should have stabilised enough to allow Retailers sufficient time to have created efficiencies and improvement of automation on simple pricing and on-boarding tasks. With this in mind, w2b consider that the opening up of the competition within this group of customers should be the primary means of protection for these customers. Effectively, if a customer is not happy with the pricing of their services then they can switch; thus increasing the competition within the market and allowing the market to operate fully to its objectives.

In our analysis (below), the net margin and allowed cost price control would effect 85% of the supply points in our area:

[✂]

Whilst this is only [✂] of our wholesale charges, we believe that the relatively low allowed costs per service do not provide adequate opportunity for investment in innovative service offerings that would lead to an increase in activity and competition in this area. An example would be a tariff/tool that focuses on the SME market. At present, this is a negative value investment due to:

- *low returns on a net margin basis*
- *high volume required to recoup investment, in an area with low interaction and awareness (53% 'uninterested' in switching retailer in this band)*
- *complexities of pricing and tariffs in the market*
- *lack of national meter reading framework to efficiently serve said customers*
- *cost allocations based on pre-market opening costs (covered in more detail under the next question). For example, these allocations do not factor in switching costs and the levels of interaction required.*

Whilst we agree with the control mechanism, we do not agree with the total uplift as detailed in the next response.

Do you agree with our proposal for a one-off adjustment for the 0-0.5Ml usage band? Do you agree with the level of this proposed adjustment? Please support your answer with evidence and analysis.

w2b agree with the proposal of a one-off adjustment.

w2b do not agree that 10% is sufficient, given RPI during AMP6 was c.14%. We therefore recommend this is used as a one-off adjustment, instead of 10%.

w2b's are also concerned that the adjustment focused on BAU opex only; and does not provide any reasonable uplift or incentive to invest in development of innovative products and service offerings or improved incentives for customers to switch in the form of discounts for this part of the market (c.85% of supply points). It is our view that this could be increased further to allow a higher degree of competition to take place in this sector of the market.

Do you agree with our proposal for ongoing adjustments for the 0-0.5Ml usage band? Please support your answer with evidence and analysis.
w2b consider that the proposal for ongoing adjustments to this usage band are reasonable and fair. Whilst the NHH Retail market has been in operation (incl. shadow operations) for over 2 years, there are still changes needed and lessons are being learned across the market. w2b consider that allowing the option for future adjustments is sensible and allows for the possibility for diverse changes in the UK economy that could impact businesses and regulated markets in the coming years.
Do you agree with our proposal to move to a gross margin cap for 0.5-5Ml customers? Please support your answer with evidence
w2b consider that uniformity of protection at this group level is appropriate for a competitive market. We believe that simplified competitive pricing can only have a positive impact. *It is evident that this sector of the market is more engaged than the 0-0.5ML band, with only 21% of the 0.5-5ML customers uninterested in switching retailers compared to 53% in 0-0.5ML. The increased willingness to switch suggests to us that a gross margin cap would be more flexible, as it offers a greater financial incentive for customers to engage in the market.* *w2b consider this approach to be the best way to incentivise competition in the market.*
Do you agree with our proposal for the level of the gross margin cap for 0.5- 5Ml customers? Please support your answer with evidence.

w2b agree with the levels proposed. We have ran the below analysis to verify the margins support our current allowances:

Wholesaler	Service	Type	Annual Avg Bill	PR16 Cost allowance	PR19 Uplifted Cost allowance	PR19 max GM%	Gross Margin (max available	Max Net Margin (PR16)	Max Net Margin (PR19)
Wessex	Water	0.5-5 ML	£2,999	£22.74	£25.01	8%	£239.95	7.2%	7.2%
Wessex	Sewerage	0.5-5 ML	£2,595	£17.00	£18.70	10%	£259.53	9.3%	9.3%
Bristol	Water	0.5-5 ML	£1,748	£42.91	£47.20	8%	£139.87	5.5%	5.3%

What is unclear from the consultation is whether the existing rule of the maximum of 1% increment in gross margin in this control will still be in effect or not, and how the initial controls will be set.

w2b would also welcome views of how/if the wholesale cost reductions that are proposed for PR19 will be used to invest in competition in the market, or reduce customer bills.

w2b fundamentally believe that with a reduction in wholesale costs there comes the opportunity to invest in the margins available to retailers, whilst maintaining stable bills for customers. This would allow retailers to invest in innovation, create more attractive deals for customers and ultimately generate a more active and enticing market for customers.

Do you agree with our proposal not to make ongoing adjustments for the 0.5- 5Ml usage band? Please support your answer with evidence and analysis
w2b agree with the principle but are not clear how reductions in wholesale costs (as proposed by draft PR19) tables are or are not passed on to the end customer, nor the annual rules that would apply to them (see above response).
Do you agree with our proposal for 5-50Ml usage band? Please support your answer with evidence and analysis

w2b consider that the proposals for this band of customers seems sensible. Establishing a uniform alignment for this band of customers would be an appropriate change to make and should not have any negative impacts on customers or Retailers serving this usage band of customers.
Do you agree with our proposal for >50Ml usage band? Please support your answer with evidence and analysis.
w2b consider that competition within this group of customers to be the most healthy, providing Retailers with the ability to negotiate fully on customer terms, as well as being able to offer "additional services" (water efficiency, water audits etc.) at a cost that is reasonable to this group of customers. *We have seen that switching and engagement in this area is the highest in the market; most notably as the average spend for these customers is c.£200k per year where even a 1% discount is a reasonable saving. The proposal to make pricing reasonable and non-discriminatory seems fair given these customers will be actively managing the supply of their water and sewerage costs, and if retailers act unreasonably, these customers will actively switch in the market.* *Therefore, the proposal for this usage band is deemed as fair and reasonable by w2b.*
Do you agree with our proposals for unmetered customers, assessed customers, trade effluent customers and special agreements? Please support your answer with evidence and analysis
w2b consider that the proposals for unmetered customers are reasonable and sensible.
Do you believe the drafting of the proposed revised REC is appropriate, in light of the proposals we have put forward? If not, please provide comments and suggestions
w2b consider that the proposed draft of the REC is appropriate in light of the proposals put forward.
Do you agree with our approach to non-exited companies and potential future exit? Please support your answer with evidence and analysis.
w2b consider that the approach to non-exited companies is the only way to deal with this area.