

# Ofwat Consultation Response

## Retail Exit Code – Proposals for price protections beyond March 2020

### Overview

This consultation document considers what price protections should apply after this date. The REC also includes non-price protections which we are reviewing in an accompanying consultation document.

### Response

1. 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.

We agree with a consistent approach across the market and within specific sectors to ensure transparency and protect customers. The lack of engagement in SME customers is worrying and requires intervention to remove barriers and promote competition.

2. Do you agree with our proposal to remove the distinction between SMEs and non-SMEs in the REC? Please support your answer with evidence.

The “net margin” approach where the cost to serve a group of customers within a specific region is estimated and a net margin added was appropriate for the opening of the market. We agree that removing the distinction will promote competition and engagement.

PR16 allocated the overall allowed net margin to customer groups in different amounts, for customers using between 0-5MI, with an overall cap of 2.5%.

3. Do you agree with our proposal to split the current 0-5MI band into 0-0.5MI and 0.5-5MI? Please support your answer with evidence.

Customers using 0.5- 50MI are more aware of the market and some have accessed benefits from it, therefore there is less need for tight regulation which might distort the market. We support the proposed increases in the level of the default tariff for customers in this group, while still retaining a backstop and to split the band as it will allow retail innovation and targeted market segmentation and lead to more engagement and diversification.

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

Very supportive of the net margin approach to protections for customers.

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

Agreed.

6. Do you agree with our proposal for ongoing adjustments for the 0-0.5MI usage band? Please support your answer with evidence and analysis.

Waterscan are not active in this sector.

7. Do you agree with our proposal to move to a gross margin cap for 0.5-5MI customers? Please support your answer with evidence

Since wholesale charges vary area to areas, using a percentage of the wholesale charge as the form of gross margin cap means the absolute level of allowed retail margin will also vary by region. But the national margin approach would increase simplicity in helping retailers to present their offers to customers more clearly and in a consistent way across different wholesale regions. We would strongly support more consistency in this area.

It estimated that on average 0.5-5MI default tariffs would increase by around 2% under the proposed cap (assuming no change in wholesale charges, and with a range from 1%-6% depending on area), while 5-50MI default tariffs would increase by around 4%.

"While we are mindful of our customer protection objective we believe this level of increase is acceptable given it the simplicity benefits it will bring, its role in promoting competition and that these customers are more likely to switch from default tariffs if they wish to."

"Establishing a uniform band for the entire 0.5-50MI band may also help retailers to offer standardised deals to a larger pool of customers and to simplify national multi-site offers."

We agree with these proposals.

8. Do you agree with our proposal for the level of the gross margin cap for 0.5-5MI customers? Please support your answer with evidence

Agreed, as above

9. Do you agree with our proposal not to make ongoing adjustments for the 0.5-5MI usage band? Please support your answer with evidence and analysis

Agreed, as above

10. Do you agree with our proposal for 5-50MI usage band? Please support your answer with evidence and analysis.

Agreed, as above

11. Do you agree with our proposal for >50MI usage band? Please support your answer with evidence and analysis.

For those using more than 50MI, who have the strongest incentive and ability to engage in the market, for whom awareness is high, and where we have seen the greatest retailer focus in terms of competitive offers, Ofwat are proposing to remove specified protections entirely, and rely on a reasonable and non-discriminatory condition. We agree with this approach.

As this requirement does not prescribe the maximum level of revenues/prices in itself, but instead requires that retailers offer prices that are reasonable and non-discriminatory. We agree it simplifies the price protections giving flexibility to retailers but still leaves scope for regulatory intervention via a dispute if necessary, therefore defending customers' interests.

12. 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

Waterscan remain concerned that the margins for trade effluent customers are too low and not reflective of the expertise and efforts required to properly manage TE accounts. It should be noted that Wholesaler performance in this area is mixed. There is little incentive for retailers to actively target these customers and further work in this area would be welcome.

13. 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.

On balance, we agree the drafting is appropriate and clear.

14. Do you agree with our approach to non-exited companies and potential future exit?  
Please support your answer with evidence and analysis.

We agree with the approach taken by Ofwat.

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