

Incumbent water companies and the development of effective markets: Response from The Water Retail Company

The Water Retail Company is a small unassociated licences retailer operating across Britain. These are our comments in relation to the operation of the English water market. We have responded generically rather than to specify questions as the questions are rightly tailored to wholesalers.

As a small retailer we participate in the market mechanisms as much as possible given our resources. We have sat on two the MOSL committees. We try and respond to Ofwat, MOSL and CCWater consultations where appropriate. We aim to have meetings or telephone conferences with all our wholesalers at least once a year.

We believe that we have positive relationships with all of our wholesalers and that we can speak to our wholesale relationship managers to sort out problems or highlight issues at any time. Whenever any of our customers have had complex problems or issues, we have worked with wholesalers and often had joint site visits. We feel that most wholesalers are acting in a way that facilitates the smooth operation of the market.

There are three main uses that hinder the market for us, credit requirements, data quality and VAT payments.

1. The most contentious issue we have had to deal with wholesalers on, is that of credit terms in the market. We believe that the credit mechanisms are a fundamental problem for unassociated retailers who cannot rely on a parent company guarantee, however we have worked within the codes to meet our credit requirements. We have done this through a combination of cash deposits, insurance and bank standby letters of credit, alongside a number of Schedule 3 Agreements.

This process of meeting the credit requirements has been very difficult and has had an influence on where we have decided to seek customers, as we are more competitive in areas where we can obtain a Schedule 3 Agreement. We understand that wholesalers have also found the credit process challenging and that exposure to risk is extremely important to wholesalers. As the market has developed the majority of wholesalers have developed Schedule 3 Agreements or are in the process of developing them.

We are highly appreciative of the work that wholesalers have put into developing these schemes and we also understand how long they take to produce and test, and that the level of risk will vary depending on the size and profile of each wholesaler. However, there are a small number of wholesalers who do not appear to be willing to develop Schedule 3 Agreements that are accessible to a wide range of retailers, or to consider Schedule 3 proposals in a realistic manner. We do not know if these companies, although professing to be open to considering proposals, are intentionally not acting in good faith. We believe that some companies may have made a blanket decision that

they will not offer Schedule 3 Agreements and therefore discussions and proposals are pointless, we would prefer these companies just to state that they will not offer Schedule 3 Agreements.

As a direct result of this lack of Schedule 3 Agreements there are parts of England where we do not actively seek customers or where we believe we are at a competitive disadvantage to companies who have a parent company guarantee or equivalent.

We believe that a number of retailers, mainly unassociated retailers and new entrants, are being disadvantaged by the lack of Schedule 3 Agreements in the areas of a small number of wholesalers. We believe that this is having a detrimental impact on competition in the market and is reducing market liquidity by tying up capital to meet credit requirements, and this reduction in liquidity is hampering innovation in the market and disadvantaging end customers.

2. Data quality is a constant problem for us when trying to acquire clients or service existing clients. CMOS data is often missing, particularly YVEs, or wrong. Many meter positions are incorrect. There are problems around things like RTS values and special arrangements that were put in place between customers and wholesalers. We have lost customers because we were not aware of RTS allowances that were absent from CMOS but incumbent retailers knew, we think this is because of historical staff knowledge of customer arrangements rather than deliberate sharing of information between wholesalers and incumbent retailers. We believe that comparison sites and switching in general will be hampered until the quality of data is significantly improved.

3. VAT on water is a major restriction on liquidity in the market. The business of retailers is retail not water supply, therefore whilst VAT is required in some cases such as industrial uses the vast majority of retail is for customers that do not need to pay VAT. The requirement for retailers to charge VAT is onerous and should be changed. The fact that we as retailer have to pay VAT, reduces liquidity in the market, and makes it difficult to take on new customers, it does not benefit HMRC. The only benefit we can see is to wholesaler cashflow. However, many wholesalers have stated they do not want VAT to be charged as it is not represented in the credit cover.

The only reason we can see that VAT is being charged is because there was a closed discussion with wholesalers, Ofwat and incumbent retailers before the market opened and they decided to charge retailers VAT. We have spoken to Water UK, Defra, HMRC and Ofwat about this issue on many occasions and it is clear to us that it is in Ofwat's power to advise HMRC that VAT should not be charged, this simple action would increase liquidity immediately and this would have a direct benefit to the market and to customers.

For questions, comments or queries relating to this response please contact [REDACTED] at The Water Retail Company [REDACTED]