

10 October 2019

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Dear Emma

Incumbent water companies and the development of effective markets

Thank you for publishing your letter to incumbent water companies on the development of effective markets. We understand that Ofwat is welcoming responses from other stakeholders. Therefore, we have highlighted below the major areas where we would welcome particular focus by wholesalers in order to support the development of effective markets. We will share this letter with wholesalers.

1. Based on our experience it is our belief that prior to market opening, non-household customers benefitted from greater flexibility and more proactive and generous allowances for leakage and non-return to sewer compared to today. This is because wholesalers no longer have a non-household customer focus. Instead wholesalers are more concerned with level playing field requirements. Furthermore, there is currently no requirement or incentive for wholesalers to harmonise policies, and as a result, there is no consistency in:
 - Rules on how each policy works (e.g. whether an allowance will be granted, what period that allowance would cover, and how that allowance is calculated);
 - SLAs that apply to the process steps (where these are not set by the market codes);
 - Charges levied by the wholesalers for carrying out tasks (e.g. site verifications);
 - Wholesalers' portals that are used to handle bilateral arrangements.

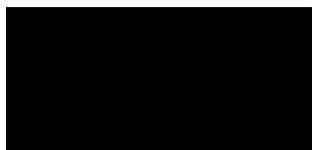
In combination, these differences significantly complicate the processes involved, resulting in slower and inconsistent responses to customers, and increasing the overall cost to the retailer. We would like to see greater harmonisation of wholesaler allowance policies across the industry and greater flexibility in the operation of allowance policies.

2. Wholesalers do not appear to appreciate that retailers are operating in an extremely low margin market. The ease and speed of receiving wholesale services is critical to the retailer's ability to deliver services to customers, especially those that really matter to non-household customers such as meter installations and repairs, decisions on leakage allowances, non-return to sewer allowances and data logging services. We would like to receive efficient and effective wholesale services through a single bilateral solution with unified SLAs in order to deliver an improved customer experience.

3. We understand that a number of wholesalers are considering or planning to roll out smart metering programmes. We are concerned by the potential costs to retailers associated with acquiring data from smart meters. For example, we can see from Thames Water's charging scheme that it costs █████ in year 1 and █████ per annum thereafter for smart metering data which is many times more expensive than bi-annual visual reads. Whilst smart meters provide significantly more data, the risk is that they are not affordable to retailers. We are also concerned that each wholesaler will opt for a different approach to smart metering which retailers will have to negotiate in order to gain access to data. We want to see wholesalers adopt a standardised approach and for retailers to be able to receive affordable smart metering data from wholesalers.
4. Where long unread meters were unread prior to market opening we would like to see wholesalers take responsibility for these, put in plans with timescales to address and agree to fund the costs.
5. We would like to see wholesalers voluntarily address the ADR gap so that:
 - There is an industry wide solution;
 - Wholesalers have a formal say in representing their position in relation to each case (where there is a wholesale element to the complaint);
 - Wholesalers are supportive of ADR providers making rulings explicitly where the service failing sits (ie wholesaler or retailer activities) and that these are binding;
 - Where the ruling relates to a wholesale activity, wholesalers bilaterally engage with retailers to agree back to back arrangements;

We hope that our comments are useful. Do let me know if you would like to discuss further.

With regards



Wendy Monk
Director of Regulation and Compliance