

Via email: covidbusinessretailmarket@ofwat.gov.uk

Ofwat
Centre City Tower
7 Hill St
Birmingham
B5 4UA

28th October 2021

Dear

Proposals to deal with un-invoiced Wholesaler charges in the event of an unplanned Retailer exit.

We have considered the 16th September proposals to modify our licence, the reconciliation rulebook and WRC. We agree with the policy objective that wholesalers should be able to recover un-invoiced amounts through the RFI mechanism, providing the impacts on customers are mitigated by the wholesaler exhausting other available recovery mechanisms (e.g collateral). We are also content with the proposed WRC.

We have however the following suggestions:

Proposed change to company licences

In the formula on page 10:

$ARt = Rt + BYAt + RFI_t + (UIRt \times [\text{company specific cost sharing rate} - \text{underperformance}])$

We think the “-“ in the right hand term is intended as a hyphen, but being part of a formula can be read as a minus sign. Could this be altered to make clear that this is not to function as a minus sign?

Proposed change to reconciliation rulebook

The proposed changes to the reconciliation rule book include the term UIRt, but the definition of UIRt is not included in the changes proposed to the rulebook. We suggest that the rulebook should also define the term UIRt, which should be the same as for the proposed licence modification.

The proposed rulebook change also creates a requirement for wholesalers to provide commentary setting out the value of un-invoiced amounts due to a Retailer failure as part of the RAG3 disclosure requirement (linked to APR table 2M). We think it follows that Ofwat also need to update its APR reporting guidance for 2021/22 onwards, to include this reporting requirement.

Yours sincerely,

Martin Hall
Senior Regulatory Economist