**Consultation question 1: Noting our key objective for the review, do you agree with our four complementary objectives for the review of REC price and non-price protections? If not, please explain why. Do you consider that any other or different objectives may be appropriate for our review?**

Without commenting in the specifics of the four objectives, it appears that they begin with the principle that intervention and regulation is required, indeed often in a segmented way, rather than a principle that allows markets to decide and intervention to occur where those markets fail. As it stands, there is no evidence of market failure as it has been heavily regulated from day one to the extent that, we have never had a proper market to assess. To the contrary, the link to the nature of the degree of regulation and the failed market outcomes we have seen to date is direct and clear. We do not disagree with the objectives as they are outcomes that any functioning market would aim to achieve anyway, we disagree with the approach taken to achieve them. Our view is that the market should be properly liberalised, and intervention should be surgically applied where it is necessary.

**Consultation question 2 – Do you agree that some form of price protections are still required for Group One and Group Two customers? Please explain your answer, providing supporting evidence wherever possible.**

One of the main reasons why engagement is so low with customers is that there is no real incentive or likely remuneration for retailers to raise awareness of alternative offers. It is the price caps that lead to the lack of awareness and switching, awareness is not a goal in its own right, it happens when companies compete for customers' business. If we are to drive some of the other goals already expressed such as water resilience, then we cannot continue with price caps that impede retailers approaching customers. We believe that the price caps should be replaced with the mechanism already in place for the >50ML, which is to say that prices should be set at a level that is reasonable and non-discriminatory. Non-discriminatory should be broad enough to allow retailers to make different offers to different groups which provides the opportunity for competition as different retailers can respond with where they have advantage. The experience of the >50ML approach has shown it can work.

**Consultation question 3 – do you agree that due to both lower levels of awareness, activity and incentives to engage in market and the presence of significant market frictions, price caps for Group One customers should closely reference efficient, forward looking costs of serving such customers**

There is a narrative within the consultation that seeks to attach the presence of market efficiencies as a reason for low levels of awareness – this is false. Low levels of awareness are driven by thin margins where competing retailers would struggle to offer meaningful discounts, therefore they do not actively market to these customers. If we are to proceed with a quasi-regulated model using bottom-up costs, then the way the question is structured suggests that we wish to avoid the reality of what it costs us now and assume a future we have yet to reach. Given how commercially unattractive these customers are at current prices, perhaps it would be more productive to accept real world costs in building up prices.

**Consultation question 4 – Do you agree that there is merit in retaining the present form of price cap protections for Group One customers (based on a cost to serve and net margin approach)?**

On the basis that we still wish to progress with a price cap approach, then this would be an appropriate way to do it. It does however require all costs of customer management to be established.

**Consultation question 5 – Do you agree that there is merit in retaining the present form of price cap protections for Group Two customers (based on a gross margin approach, with gross margins retained at present levels of 8% for water and 10% for wastewater)?**

Yes, however we have never understood why water carries a lower GM than wastewater. The obligation to read meters sits with the owner of the water SPID. Although there is some loose language in the code about the need for wastewater SPID owners to remunerate the water SPID owner in the case of split SPIDs, this never happens. Therefore, given that water SPIDs carry more of the operating cost burden, why do they have a lower gross margin when all other operating costs are largely the same for both water and waste?

**Consultation question 6 – Do you agree we should undertake a more detailed, 'bottom up' analysis of the costs – on a forward-looking basis - that an efficient Retailer may incur to serve Group One customers? If not, please explain your preferred approach**

In principle yes, the caveat that would be needed is to be realistic and reflect the actual world retailers operate in. Our concern when we see words such as 'efficient Retailer' is that it becomes a theoretical exercise that makes too many benign assumptions about the real world and customer behaviour. We think the approach needs to take in to account that not all customers are 'good actors' and to appreciate that their impact is felt by other customers. The non-discriminatory principles tend to work against good customers, as it is they who tend to subsidise customers that leave debts behind for instance. We would fully support the definition of non-discriminatory application of price caps to be done on a segmental basis (not just volumetric) and allow for different price caps for different behaviours, in particular debt.

**Consultation question 7 – Do you have views concerning the level of the net margin that an efficient Retailer may expect to earn in respect of serving Group One (0-0.5Ml) customers?**

Our view is that margins are too low for a variety of reasons. Firstly, cost build ups assumed in regulatory reviews are far too low. Secondly, the definition of efficient Retailer is, as explained above, potentially theoretical. Thirdly, at only 2.5%, there is very little margin for error. Allowing this margin to be for instance, 2% higher, would help manage retailers' costs, encourage competition, and have very little impact on customers who by definition have very low consumption already because they have such low bills (generally far lower than the domestic energy market where some of these comparisons are drawn). We would argue that in an efficient market, a retailer would look to recover a fixed £ return from customers plus a percentage from consumption. Given some bills are as low as £100 a year, a retailer would be making c. £2.50 from them. No retailer would choose to take that customer in a real-world setting.

**Consultation question 8 – Where we undertake a detailed review of efficient, forwardlooking costs for Group One customers, do you have views about if and how we should take account of forward-looking costs that an efficient Retailer may incur in serving customer Groups Two and Three?**

Apportioning of shared costs between the three groups of customers will be a difficult exercise, with a high level of differentiation between retailers on how this is done as the allocation decisions will be different from one retailer to another. We re-iterate our view that we should move to a 'reasonable' standard for customers in Group Two as in Group Three.

**Consultation question 9 – Do you have views concerning the possible merits and/or risks of moving to redefine Group One customers in terms of 'customer' rather than 'eligible premises'? Please set out the reasons for your views.**

As explained above, we consider price caps unnecessary and harmful to the market evolution. Having said that, if we are to work with caps, they need to be simple. This suggestion is more complex and for it to work relies on perfect data, i.e. you know what sites a customers has and can therefore bring them together – that is very unlikely unless they have already contracted, in which case there is no issue. It is also unlikely that these customers will fall conveniently in to one wholesale area, so if Customer A has one site in Wholesaler A and one site in Wholesaler B, how do you combine them? It also means addressing wholesale costs as retailer costs simply reflect that. Finally, these smacks of regulators making choices for customers again. If customers are not aggregating their load and treating their sites as independent, then why are we proposing to regulate that. Let customers make that choice.

**Consultation question 10 – Do you agree there is merit or scope to specify REC price caps in terms of the six tariff types listed above? How should these be simplified and what are the benefits and costs associated with this?**

There is some merit to this suggestion from a simplicity point of view but we are not sure whether customers will see any tangible benefit.

**Consultation question 11 – Do you consider that retail costs to serve a particular customer type or tariff type are likely to vary significantly across different regions in England? Please provide information and evidence to support your answer.**

Yes, we believe servicing retail cost of servicing customers varies between regions. Differing costs include different meter reading costs due to different charges on metering from wholesalers and metering companies, differing credit control costs such as disconnection charges, differing bad debt charges and differing wholesale charges.

**Consultation question 12 – Should Ofwat consider simplifying the retail price caps by removing or reducing the observed variation in allowed costs and/or net margins between regions? Please explain your answer and provide supporting evidence.**

The market has evolved, and costs are now difficult to separate between regions within a supplier's books. We would support this approach as a step towards reducing regulatory oversight at such a detailed level.

**Consultation question 13 - Do you agree with our proposal to retain the current REC non-price protections? If not, please set out your proposed changes to the current non-price protections, providing supporting evidence where necessary**

It appears the answer to a lack of customer awareness and engagement in the market has led to greater detailed regulations which increase supplier costs and reduce the desire to take risk in innovative products. We believe this is the wrong way round. Non-price protections require fundamental review alongside margins and price caps. They work together. Higher margins/ price caps encourage greater competition and raise awareness, suppliers changing terms and conditions should be allowed to do so and suffer the competitive impact of that. The desire to protect 'unaware' customers must be balanced against the value being lost by those that are aware, and in the 0-0.5ML segment, a realistic appraisal of just how small bills are. In other words, by trying to protect every customer, we make it worse for the aggregate and even those customers affected are not affected by material amounts. The approach is overly theoretical and not focused on encouraging competition, but at heart distrusting competition. It comes back to what sort of regulation do we want, nanny state or laissez faire?

**Consultation question 14 – Do you agree that the MPF is a more effective tool than the REC to help reduce some of the barriers to water efficiency in the business retail market? Please explain your answer and provide supporting evidence.**

We agree, solving this is simple. If wholesales shared in the cost of MPS18 and MPS19 (and others), then we believe much of the data quality and timeliness issues we be solved. At present wholesalers have no real incentive to fix assets or read meters beyond simply getting wholesales charges correct (which should be enough by itself).

**Consultation question 15 – Are there ways in which our review of the REC could be used to strengthen incentives for business customers to use water more efficiently? Please explain your answer and set out how your proposal would benefit customers.**

No, retail tariffs are built on wholesale tariff structures, that is where the bulk of the issue would need to be addressed. For instance, is it still correct to have tariffs that step down with consumption rather than up? Ultimately retailers follow the wholesale tariff structures.

**Consultation question 16 – Do you agree that any revised price or non-price protections resulting from our review should apply over a medium time horizon of 3-5 years? Do you think there are any significant factors or arguments that would point to either a shorter or longer duration**

If the goal of the REC is to genuinely drive competition and lay the foundation in PR24 to promote water efficiency, then 3 years allows for change to take account of changing circumstances. If there is a belief that open, vigorous competition is not possible, then locking in for 5 years makes sense.

**Consultation question 17 – Do you have any views on the extent to which Ofwat could or should amend its approach to the monitoring and enforcement of REC price and non-price protections? In putting forward any views on any preferred approach, please explain how you think customers' interests would be best protected.**

The discussion in the consultation document answered the question, there is no belief this will represent a change in the protection of customers interests. As a general point, every regulatory intervention or requirement, especially reporting, provides large players in the market with scale, competitive advantage.

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