



REC Consultation

Southern Water Response

Thank you for the opportunity to respond to your consultation on price and non-price protections within the Retail Exit Code (REC). We have focussed our response to the questions relating to water efficiency as we have limited data and evidence of business retail cost to serve and margins since our exit from the market. In alignment with our response to the *performance commitments for future price reviews consultation*, we expect retailers to promote water efficiency as a statutory duty, and do not think it is appropriate to place the majority of the burden of incentives for water efficiency on wholesalers and effectively place that obligation back on wholesalers.

Consultation Questions

Q1 - Q13: N/A

Q14: 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 that the opening of the business retail market was expected to deliver improved levels of water efficiency amongst business customers through retail competition and that this was a fundamental objective of the market. Therefore, we believe that the appropriate market mechanisms should be in place to incentivise retailer competition and behaviour via the REC, MPF or any other market or regulatory measures to promote water efficiency to business customers. This could include the reform of the Market Performance Framework, but ultimately the financial incentives allowed within the market need to support retailer and customer behaviour to promote water efficiency.

With the responsibility for the promotion of the efficient use of water by business customers transferred by Parliament to retailers (via the Water Act 2014), we do not think it is appropriate to use a performance commitment to effectively place that obligation back on wholesalers. If there are shortcomings in the promotion of water efficiency by retailers to their customers, then Ofwat should take appropriate steps to enforce the statutory duty on retailers. We accept that there is a role for wholesalers to work collaboratively with retailers to promote water efficiency but believe that it is wholly inappropriate for a wholesaler to face a financial penalty via an ODI for something that is another party's statutory responsibility.

Q15: 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.

There needs to be sufficient allowed costs and incentives within the REC to promote water efficiency though market competition and agree that retailer incentives to deliver water efficiency need to be strengthened. Retailers have a statutory duty to promote water efficient use of water by their

customers and, therefore, there should be sufficient measures and incentives in place to ensure this can be effectively undertaken by an efficient retailer.

Q16 - Q17 N/A

Should you have any queries on our response or would like to discuss further, please do not hesitate to contact me.

Yours sincerely,

[Redacted signature]

[Redacted name]

Markets and Competition Manager

M. [Redacted name]

[Redacted contact information]