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By email

To Retailer CEOs

REC Review 2022 – Ofwat's Request for Information to Retailers

To support our review of the Retail Exit Code (REC) price and non-price protections, and further to my letter of 17th December 2021, please see attached our draft Request for Information (RFI) and accompanying draft guidance note.

If you have feedback on this draft RFI and/ or guidance note, please send this to retailexitcode@ofwat.gov.uk by 5pm on **Monday 14th February 2022**. We will also host a webinar with stakeholders on Thursday 10th February 2022 11am – 12.30pm to provide a further opportunity for discussion and feedback on the draft RFI. You may also send questions ahead of the webinar, by 5pm Wednesday 9th February, though the webinar itself will of course also be an opportunity to put and discuss questions.

Following this, we will consider the feedback received and anticipate formally issuing the RFI in week commencing 21st February under License Standard Condition A8. We anticipate the deadline to respond will be in early April 2022.

I also wanted to take this opportunity to update you on our plans and expectations for our REC review and the formal RFI. We set out our proposed approach to our review in our [December 2021 Consultation](#), with responses to that consultation due by Friday 4th February 2022.

A fundamental part of our REC review will be to understand the efficient retail business costs of serving customers. A particular focus will be to better understand costs and cost drivers for Group One customers (0-0.5Ml), with a view to understanding and assessing the costs, on a forward-looking basis, that an efficient Retailer might incur in serving them. We will also have regard to costs of serving customer Groups Two and Three.

As a result, the RFI will request granular data on the business retail costs to serve customers. We propose to seek data on costs by cost categories, such as billing costs, as well as by customer segment, such as Customer Group One. We look to understand and assess retail business costs broken down by cost category and cost driver ('top down') as well as by customer segment ('bottom up'). We wish to understand the evolution of costs since market opening as well as forward looking costs and therefore look to gather annual cost data since 2017-18 and forecast costs and drivers.

We recognise that we are asking for a reasonably large volume of data from retailers; we have in scoping out our request sought to ensure we are seeking only information that we consider

necessary to understand retailer costs with a view to revising REC price protections to best meet our objectives. Furthermore, noting the data request we are considering as part of the REC review, we are this year presently minded not to send retailers a formal information request seeking detailed quantitative data which we would normally send for the purposes of informing our ongoing market monitoring and State of the market report.

Our approach depends on good quality data from Retailers concerning the costs and other details of their retail business operations. For this reason, I signalled in the December 2021 letter that it is crucial that Retailers, in their returns to our formal RFI, provide accurate, assured, and high-quality information to Ofwat in line with Licence Standard Condition A8.

I want to emphasise that this remains our position; **we will therefore request assurance on behalf of your company's Board that your company has undertaken robust and adequate assurance processes to ensure your information provided in your returns to our RFI is consistent, accurate and reliable.**

With the above in mind, we anticipate the following process and timetable for progressing and completing our RFI:

	Activity
by 5pm 9th Feb 2022	<ul style="list-style-type: none">Send any written questions concerning Ofwat draft RFI and/or draft guidance, to inform 10th February 2022 Webinar (note the webinar itself will also be an opportunity to put and discuss any questions).
10 th Feb 2022	<ul style="list-style-type: none">Ofwat hosted webinar to take questions and clarifications on draft RFI and draft guidance.
by 5pm 14 th Feb 2022	<ul style="list-style-type: none">Deadline for Retailers to provide written points on draft RFI and draft guidance.
w/c 21 st Feb 2022	<ul style="list-style-type: none">Ofwat sends Retailers formal RFI for completion. We will request information under Licence Standard Condition A8.
1st week Apr 2022	<ul style="list-style-type: none">Receipt of completed RFIs, together with statement of assurance.
Early Sep 2022	<ul style="list-style-type: none">Ofwat to publish 'minded to' position on proposed revisions to REC protections.
by end 2022	<ul style="list-style-type: none">Ofwat to publish Decision on revisions to REC protections, to take effect April 2023.

Note, for ease of access and transparency, we intend to publish this letter, the draft RFI and draft guidance notes on the Ofwat webpage dedicated to the [Business retail market: 2021-22 review of the Retail Exit Code](#).

As I noted in my December 2021 letter, it is possible that further RFIs may be necessary during the course of 2022 as we undertake our review.

Yours sincerely

Georgina Mills