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By email: pr24@ofwat.gov.uk

Dear Colleagues

‘Consulting on our methodology for PR24’

Thank you for the opportunity to respond to your consultation on PR24. Our comments are limited to those areas which touch on the retail sector.

Whilst we understand that PR24 primarily concerns wholesaler activities, we would have hoped to see a greater nod to improvements designed to breathe life into the NHH market which, whilst still in its infancy, is not yet delivering true benefits to customers.

In broad terms, we note that Ofwat’s PR24 methodology has now landed on a consensus that NHH water efficiency incentives should sit with wholesalers for the present. We’re also interested to see what impact the newly proposed BR-Mex wholesaler performance commitment might have in driving better wholesaler behaviours and service levels. However, both areas are still lacking in key detail and therefore we reserve our judgment whether the PC delivers measurable benefit to water retail.

Our further observations/comments can be found in Appendix 1 attached. I hope that you find these comments helpful. If you have any questions, please do not hesitate to contact me.

Yours sincerely



Sally Mills
Chief Executive Officer
Pennon Water Services

APPENDIX 1

Water efficiency

As a retailer we understand the requirement to support water resource measures and we are all keen to ensure that future wholesaler activities to improve water efficiency amongst business customers are appropriate. We would ask Ofwat to further consider retailer concerns about the practicalities of implementing a wholesaler led approach to NHH customers as there are uncomfortable questions yet to be addressed.

For example, we would ask Ofwat whether it intends that retailers alone carry the burden and risk of collecting any planned water efficiency levy? How are you intending to treat debt for unpaid NHH customer levies? Specifically, we'd ask you to confirm that there is a risk that retailers will be required to pay the levy to wholesalers which we are subsequently unable to recover? If so, there is a risk that retailers will end up guaranteeing and financing this levy such that wholesalers can in turn spend it by entering the competitive commercial market 'selling' water efficiency services to retail customers in competition with us. We understand that the levy solution proposed reflects what happens in the rest of the utility sector. As such it would be useful to provide some information as to how this levy works in practice elsewhere.

Retailers own the relationship with NHH customers and therefore, we do not yet understand how a PC for wholesalers to reduce NHH consumption would sit with the principles of a competitive market. We have already been approached by one wholesaler asking us to provide our customer data to enable their commercial water efficiency partner to approach those customers. Does Ofwat intend that retailers must provide large amounts of their customer data to third party service providers and has Ofwat considered whether it is appropriate that we should do so.

Separately, we note that neither the PR24 consultation nor the REC consultation have made any reference to the potential impact on retailers of the material reduction in retail revenue/profit which is being actively driven by water efficiency targets. In fact, we are unaware of this being addressed anywhere by Ofwat or Defra and we should like to understand your thoughts on how the impact of these targets can be mitigated given the financial constraints the sector is subject to? We hope that Ofwat will engage with Retailers on this [REDACTED] to imagine that retailers will be investing time and money in trying [REDACTED] base to offset the reduction in consumption, whilst simultaneously [REDACTED] increase in debtors.

BR-Mex and financial wholesaler incentives

We are encouraged by the move to include comparable financial penalties on wholesalers for PR24. At present, the Market Performance Framework (MPS and OPS metrics) financially penalises retailers significantly more than wholesalers. Consequently, there's been little to incentivise changes in wholesaler behaviours and policies which ultimately, is at the expense of customers. Whilst we are not overly optimistic about the true impact of the proposed penalties and incentives, it is a small step in the right direction and may yet focus the minds of wholesalers on the service needs of retailers and NHH customers.

We would caution that the design of any BR-Mex needs to be carefully managed. The proposed methodology risks the R element being very transactional and at a Bilateral level rather than focusing on behaviours and policy decisions which tend to lead to customer dissatisfaction.

Also, as you are aware, poor performing wholesalers pay penalties under their financial mechanism. Most people do not recognise that the so-called customer bill reductions are a direct consequence of the application of the penalty regime and we'd argue that one of the unintended consequences of a penalised wholesaler being required to reduce their charges is that it has a direct, knock on impact on the revenue of retailers. This means that the retailer is indirectly penalised in addition to the poor performing wholesaler. As such, we would urge Ofwat to propose how it would prevent retailers revenues being reduced by the impact of penalties levied against poor performing wholesalers?

Metering

We note that Ofwat has no appetite to mandate or fund wholesaler smart(er) metering programmes as a stand alone requirement, preferring instead that metering is wrapped up within the whole water efficiency piece.

Whilst we accept that smart(er) metering is a tool to reduce water demand, it's highly likely that wholesalers will focus on more obvious and impactful steps to reduce water demand such as fixing leakage. This has the double effect for wholesalers of hitting both their water reduction targets and their leakage PC's reducing their reputational and financial exposure. Whilst this is admirable, it's very unlikely to deliver the step-change needed to get the basics of metering right and as the sector has long been saying, good retail services start with well maintained, easily accessible metering data.

Metering plays a fundamental role in the NHH market and is one of the biggest issues affecting customers and retailers. Accurate settlement is a necessity for the market to operate efficiently and benefits both retailers and wholesalers. Regular meter reading enables customers to receive accurate bills and reduces complaints whilst identifying issues quickly. Access to flow data from smart meters allows customers to be more aware of costs and enables them to make the appropriate decisions for their business in terms of water efficiency and cost control. In essence smart(er) metering for the NHH market is about far more than just meeting water demand. Metering is the beating heart of the market and PR24 offers the best opportunity to shift the dial forward to make the Market achieve some of its objectives. The independent Artesia report commissioned by the MOSL Metering Committee confirmed that there was a robust business case for smart metering that benefits the market as a whole. It will be interesting to take a rear view look at the actual changes to the metering landscape at the end of the next AMP.