

REC Review September 2022 Proposals Consultation
Response of Castle Water Limited

Introduction and Summary

1. This is the response of Castle Water limited (“**Castle**”, “**we**”) to the above consultation on its review of the Retail Exit Code (“**REC**”) issued by Ofwat on 1 September 2022.
2. We turn to the individual Consultation Questions below. For convenience, our reply to each question starts on a fresh page of this document. The key elements of our response are as follows.

Competition analysis is flawed

- Ofwat’s analysis of competition in the market is scant. It takes no proper account of the established tenets of competition law and practice, notably in relation to assessing market power before setting monopoly-style price controls.
- Ofwat relies on this flawed analysis to support its assertion that smaller customers in particular will not and cannot be protected by competition, and thus need unjustifiably restrictive price controls.
- Because prices for smaller customers will continue to be capped below the actual costs to serve there will continue to be little or no scope for competition on price or service offerings, so perpetuating low levels of engagement and switching.
- This will also serve to limit entry and expansion, as a rational investor must consider whether there is justification for operating in this market segment either as a whole or in specific higher cost regions.
- The continuation of this approach for a further three to five years will mean that competition, particularly for smaller customers, will have been heavily muted for up to ten years post-market opening, frustrating the Government’s objective of competition in the Non-Household (“**NHH**”) water retail market.

Elements of methodology are wrong or unjustified

- The review purports to set ‘efficient forward-looking costs’. Yet estimates of running costs, meter reading costs and debt management costs include, among other things: periods where these costs had to be reduced due to Covid-19 but from this year are now returning to pre-Covid levels or higher; and lower rather than current or prospective costs of metering.
- No account has been taken of the capex costs of investing in the systems and processes necessary to facilitate better customer service provision, the introduction of automated and self-serve options, and the encouragement of customer meter reads. This investment is no less important a component of ACTS as running costs since it is rendered essential in order for retailers to stand any chance of meeting cost to serve imperatives.

- In order to achieve a national average for costs to serve and metering costs (while not in itself an unreasonable objective) Ofwat has been forced to wave away, to an unjustified and unreasonable extent, material legitimate differences in such costs under the guise of “efficiency challenges”; to which an additional regulatory “efficiency challenge” has been added. For (non-exclusive) example:
 - Ofwat uses average and median, rather than retailer, wholesaler area or regionally-weighted, costs to serve when the actual cost to serve varies by a factor of over 2.5, due in large part to wholesaler-led issues or legacy customer portfolios. Specific distortions arise from the inclusion in the averages of two retailers with no legacy portfolio.
 - Similarly, meter reading costs vary by a factor of over 2, but are assessed as not varying between retailers or regions on the basis that the differences are all due to contracting strategies (over which, it is incorrectly assumed, retailers have absolute free choice).
 - Further, in relying on these averages Ofwat’s assertion that competition is muted becomes a self-fulfilling prophecy. For example, Ofwat asserts that there should have been more switching away in regions where tariffs are higher. If, however, as we contend those regions are also high cost, that headroom is an illusion. This results in poorer outcomes for customers as retailers have neither the ability nor incentive to compete for customers across regions or customer bases where costs are high.
- This level of artifice also renders Ofwat’s methodology unnecessarily vulnerable to challenge. We suggest an alternative approach that would pass the reasonableness test while not undermining the principle of a national approach.

Consultation Question 1 – Setting aside our February 2022 decision to temporarily increase gross margins for customer Group Two by 0.49% in respect of customer bad debt costs which is outside the scope of this consultation, do you agree with our proposals to retain gross margins for Group Two customers at 8% (water) and 10% (wastewater)?

No, for two principal reasons.

Strict margin caps are not needed for Group Two

Ofwat bases its decision to retain margin caps as a maximum allowed charge for Group Two customers on the “risks that a Retailer chooses to charge some customers less at the expense of charging some customers more, relative to the relevant price cap”. But there is no analysis that suggests this justifies exactly the same approach and level of margins.

There is also a logical contradiction between this statement and Ofwat’s adoption of the term “looser, ‘backstop’ tariffs” to describe the maximum allowed margins, as “we consider that customer engagement and competitive rivalry between Retailers provides a stronger constraint on pricing levels”.

First, they are neither “looser”, nor ‘backstop’ caps in the sense used in the Decker report. Given Ofwat’s rationale for adopting backstop caps, there is little logic in applying them as maximum allowed charges. A more imaginative approach is needed.

Second, it is not necessary to apply absolute margin caps at all, and certainly for the potential 5-year duration of the REC. If competition is being seen to work, it should be fostered by allowing the headroom typically afforded by backstop caps – if necessary complemented by a reserve power to tighten regulation. To the extent that evidence of competition justifies a ‘backstop’ cap, Ofwat could take a more imaginative approach such as allowing it to be used as a benchmark rather than a strict limit.

If additional protection were thought necessary in the interim, following other regulatory norms it could, for example, be backed up by a ‘non-discrimination’ provision (as applied to Group Three).

This might specify that tariffs could depart from the benchmark where justified by differences in the circumstances of supply - e.g. volumes, seasons or different service offerings, so allowing for innovative tariffs that better reflect customer needs.

Group Two is not a homogenous category in current market conditions

Ofwat asserts that it has “assessed that these Gross Margin levels would be likely to be sufficient to deliver sufficient revenue to cover the retail business costs to serve Group Two customers and so remain warranted at this level”. We consider that this criterion will not be met.

As the Group Two consumption threshold has to manifest itself in tariff terms, and there is no tariff that exactly matches the threshold, Group Two contains a number of small customers with Group One consumption and bad debt characteristics. In addition, many Group Two customers continue to exhibit consumption stubbornly 10% below pre-Covid levels due to:

- Permanent structural changes in working patterns.
- The continuing working through of the effects of the pandemic in terms of business closures and insolvencies.

- Low economic growth and the prospect of recession prompted by energy and inflationary pressures.

This will lead to:

- Margins at or below those allowed for Group One.
- Under-recovery of Group Two revenue.
- More bad debt write-offs in respect of Group Two.

Not only will many Group Two customers with Group One consumption not count towards the 2% Group One bad debt allowance, but the bad debt allowance for Group Two as a whole will end completely, despite the underlying bad debt ratios not having changed. That is not rational. We suggest that a continuation of the Group Two bad debt allowance of 0.49% p.a. would be appropriate (and not raise bills). See further our answer to Consultation Question 6.

To the extent that there is uncertainty over the future course of bad debt, this approach is also consistent with the treatment of the Group Two margin caps as a 'fallback' measure.

Consultation Question 2 – Do you agree with our proposal for a single, England-wide, retail allowance to apply to Group One customers?

Yes, in principle we agree that an England-wide retail allowance is a worthwhile aim. We do, however, have very strong objections to the way in which Ofwat proposes to achieve this.

Flawed methodology

The methods that Ofwat adopts appear to be designed to support Ofwat’s contention that “we have not seen any convincing evidence that retail business costs (including meter reading costs and bad debt costs) vary or are likely to vary significantly according to geographical area or Wholesaler region”.

A number of aspects of Ofwat’s methodology artificially contrive to allow it to draw this conclusion in order to retain a tight grip on the level of prices.

For example, Ofwat states that in retail exit regions where *prices* are higher one would expect to see switching away from the acquiring licensees to those where prices are lower, and thus that price competition is not occurring. This statement holds true, however, only in circumstances where the relative *costs* differ. If, as we contend, in both cases allowed margins are at or below costs to serve it is unsurprising that price competition is not occurring. By assuming away regional differences Ofwat’s thesis becomes self-fulfilling.

For example, it is wrong for Ofwat to “consider that in principle most retailer costs - such as customer contact costs, billing, customer acquisition and retention - are unlikely to vary by region. Most Retailers operate national operations from a central location, and with costs primarily comprising billing and revenue collection exercises”.

In fact most of these costs vary markedly by region. Market frictions such as data issues give rise to excess customer contact and complaints, rebilling, debt collection, bilateral activity and field visits.

The underlying data therefore shows significant variations in costs both between regions and retailers. These centre primarily on market frictions, meter reading costs and customer bad debt.

Use of medians and averaging across retailers and regions masks significant cost differentials

First, averaging unweighted costs across retailers severely dilutes the impact of a number of factors on certain retailers concerned. We would note:

- The reference in Ofwat’s report (22 September 2022) “Five years open for business - taking stock” to the “strong signal that Wholesalers also have a key role to play in improving the quality of, and access to, data in the business retail market”. Ofwat underestimates both the continuing extent of market frictions and costs, and the extent to which these vary across regions. Higher customer contact costs and bilateral activity are of particular prominence in this context. Those retailers who have acquired customers through retail exit, or customer portfolios following retail exit, have suffered most from the market frictions that Ofwat has identified as stemming largely from wholesaler meter asset and data quality. These costs fully come to light only after the relevant customer portfolio has been acquired.
- Ofwat appears in other contexts to accept that there are widely varying levels of market friction in wholesale areas. This can be seen from the Holistic Reporting and OPS reporting by MOSL, and also in the prominence given by Ofwat in the report cited above to the failure by Thames Water to maintain market data. [X]

For example, over 85% of the total 5,944 de-registrations actioned since 1 April 2022 have been from Thames, with communications from Thames indicating a further 8,500 de-registrations to be expected. And Thames have said that it will take them c. 18 months to work through the backlog of bilateral transactions. So even by comparison with the generality of retailers our costs are an outlier.

- The cost of resolving data problems therefore varies considerably between wholesalers. Castle has been able to compare the cost-effectiveness of the approach we are required to follow with Thames Water with that for South East Water (“SEW”). Both companies score badly on OPS and Holistic Reporting on data issues. Castle has [X] FTE employees working on skipped meter reads for Thames meters; and [X] for SEW. The volume of resolution for the two wholesalers is almost identical, which shows that the cost of resolving the meter skips for Thames is 10 times the cost for SEW. As an additional comparison, other wholesalers such as United Utilities have proactively visited and resolved long unread meters, whereas [X]% of Castle’s total employees are dedicated solely to resolving meter skips.
- Retailers that have acquired customers through retail exit also have, by definition, the vast majority of customers on deemed contracts. This means not only that these retailers are bound by the close restrictions placed on their tariffs and other financial terms of supply, but are also bound by the Retail Exit Regulations and the ‘no worse off’ provisions of the REC. Together, these tie retailers into outdated and more expensive modes of customer service: unlike other markets where business customers (and indeed domestic customers) are used to using modern methods of account management, we can only encourage - but not require - default tariff customers to join online options such as MyAccount (including the provision of meter self-reads) that can be a condition of service under contract and crucial to achieving efficient costs to serve.
- Geography is not the sole determinant of regional cost differentials. Social deprivation in certain areas (both urban and rural) plays a significant role in causing higher bad debt and collection costs; urban areas also present difficulties in terms of keeping up with transient business populations, business closures, changes affecting segments such as takeaways and casual dining, and reading meters located in congested streets.
- In particular, ONS data that we have adduced in previous submissions on bad debt showed - and the latest data continues to show - strong regional differences, with business failures in London higher than in all other regions by up to 35%. Ofwat states that weighting these costs by retailer or geography will cause the larger retailers to dominate the cost base. But not doing so builds in a huge efficiency challenge for those retailers even before the imposition of an additional regulatory ‘efficiency challenge’. The largest four retailers account for c. 82% of Group One SPIDs (c. 86% at the time of market opening), but are given equal weighting with two retailers who serve less than 5% of the market, with the lowest cost retailer (in terms of the cost to serve averages of each retailer) serving c. 23 times fewer Group One customers than the highest cost retailer.

We are unable to calculate the difference between unweighted and weighted costs, since Ofwat does not show the necessary data. We can, however, say with certainty that Ofwat’s assertion that

“we have not seen any convincing evidence that retail business costs (including meter reading and bad debt costs) vary or are likely to vary significantly according to geographical area or Wholesaler region” simply flies in the face of the facts.

We appreciate the challenge of avoiding on the one hand setting the ACTS at a level so high as to allow in full the costs of the higher cost regions, and on the other hand so low as to remove the ability and incentive for retailers to compete. But that is not to say that a backstop level of cap cannot be devised that gives sufficient headroom for entry and expansion, price competition and switching to occur in all regions without removing all challenge for retailers in areas subject to high costs, and without the use of an additional arbitrary ‘efficiency’ challenge.

Consultation Question 3 – Do you agree with our proposal that REC price caps for Group One customers should apply to each unique service supplied?

No.

Maintaining cost parity between sewerage alone and sewerage combined with trade effluent is clearly unreasonable and is not justified by any analysis provided by Ofwat.

Combining waste and trade effluent as one service will not reflect the often more costly process of providing a support service for trade effluent consents and licences.

This includes guidance on the regulatory obligations; support in the application process and wholesaler negotiation for bespoke consent limits; support and data reporting on customers' sustainability and environmental targets; tailored solutions for multi-site customers; and ensuring accurate trade effluent billing.

Moreover, recent changes to the consent regime for trade effluent increases further the cost to retailers of managing trade effluent services. Given the obligations on retailers, the costs of managing trade effluent activities, and the clear difference in cost to serve compared with sewerage, there should be a differential margin for managing trade effluent charges for Group 1 customers compared with sewerage. This would most easily be provided by treating trade effluent as a separate service, which more accurately reflects its complexity and the related obligations.

Separately, we noted in the Ofwat webinar that AFW, SVE, SSC and UUW were placed in a single band for ACTS, allowed margin and meter read component for both measured and unmeasured water. Ofwat agreed that this was wrong and that they would separate the measured and unmeasured water categories.

Consultation Question 4 – Do you agree with our proposal that an additional meter read cost allowance should apply only where a customer takes a measured water service?

No, if the implication is that ‘an’ allowance means only one allowance is made in respect of each Group One customer, regardless of the number of meters associated with that customer.

In the webinar Ofwat suggested this was their intention, on the basis that few Group One customers had more than one meter. This is wrong. In fact, as the table below shows, the majority of our multiple metered customers are in Group One.

	spids with multiple meters	% of total
Group 3		1%
Group 2		43%
Group 1		56%
Total		100%

The number of meters per Group One SPID range from [X] to [X], with the median at [X]. Since we incur a meter reading charge per meter, it is clear that the meter reading allowance should follow practice and apply to each meter on a measured supply.

Note that, whereas Ofwat assumes two reads per meter per annum, we are required to read some meters monthly, as reflected in MOSL data, and accordingly suffer Market Performance Standards (“MPS”) charges if we do not. This is considered further under our answer to Consultation Question 6.

Consultation Question 5 – Do you agree with our proposal to continue with the current REC specification of customers and premises, including as set out in Annex A1 'Allowed charges for Customer Group One'?

No.

Ofwat typically seeks data based on 'customers'. In the REC, however, the definitions of 'customer' and 'premises' are treated as fungible; so that Customer Group One is defined in terms of 'Eligible Premises'.

On any given premises there can therefore be many 'customers' (e.g. a university campus) or one (e.g. an industrial concern with multiple units). In practice, however, Customer Groups have to be identified by tariff (absent a clear alternative). Moreover, tariffs may differ by SPID; and we are required to read all meters at Supply Points. It would therefore reduce complexity and ambiguity to standardise on core SPIDs as the basis for assessing allowed charges.

Consultation Question 6 – Do you agree with our approach to assessing efficient costs to serve for Group One customers? Do you have any comments regarding our approach?

No, we do not agree with Ofwat’s approach to assessing efficient costs to serve Group One customers.

Data published by MOSL clearly shows major differences in performance by individual wholesalers. This regional variation in performance results in significant regional variation in retail costs. The data demonstrating both the quantification of variation, and identifying the variation, is in the public domain. In the absence of action by Ofwat to standardise performance by wholesalers, it is perverse to expect retailers to be able to manage costs on a standardised basis across England. The result of Ofwat’s approach will be to either embed cross-subsidies between regions, or to reduce the level of competition in specific English wholesaler areas.

In addition, the NHH market is already exhibiting examples of mis-selling, where customers are entering into contracts committing them to higher than expected costs, from which they are unable to be released. Perpetuating ACTS at a loss for retailers who remain compliant with the REC will result in the predominant form of competition being retailers with poor compliance, and some customers being enticed to enter damaging higher cost contracts, unaware that they will be paying a higher price and losing regulatory protections. We have already seen evidence of this.

In any event, the concept of efficient costs requires there to be a reliable benchmark against which to measure efficiency. For the reasons set out below, such a benchmark is not evident in Ofwat’s assessment. Nor is there any assessment of efficient *forward-looking* costs, which it is Ofwat’s stated intention to determine.

In line with the sequencing of the Consultation Document we address the Retail Allowed Cost to Serve before turning to Meter reading costs and Customer bad debt costs.

Retail allowed cost to serve

Ofwat relies on distorted historic data and ignores current and future costs

Ofwat’s stated intention is for price protections to be aligned to efficient, forward looking retail costs of serving Group One customers, yet relies on historic data that ignores both (i) known limitations and deficiencies in the historic data and (ii) significant changes in the economic environment and the impact this will have had and will have on retailers’ costs both in the present and in the near term.

Ofwat dismisses the use of the forward-looking costs that it sought from, and which was provided by, retailers on the basis they present a “subjective forward view”. To the extent that these forward-looking costs included retailers’ forecasts for FY23, a period that had already commenced at the time of the RFI (and certainly for Castle represented Board-approved budgets), it is wrong to dismiss these numbers as a “subjective forward view”.

These numbers reflect (i) the actual current environment retailers are operating in; (ii) contracts that have been recently entered into rather than ones which are obsolete; and (iii) the efficiency measures and KPIs that businesses have put in place to ensure they achieve profitability and sufficient returns for their shareholders.

Some specific examples in relation to Castle’s FY22/23 numbers include:

- IT costs will increase by >[X]% driven by inflationary licence price increases – Microsoft for example have increased licence prices by [X]% in the context of an

inflationary environment.

- Increased average meter reading costs following the cessation of favourable meter reading contracts with Thames and Portsmouth and the negotiation of new competitive contracts across all wholesale areas.
- Forecast numbers based on challenging efficiency targets, such as encouraging customers to self-serve via online accounts and moving towards paperless billing options.
- Uplifts to staff salary costs fixed for the year ahead.
- Committed spend on projects aimed at resolving market frictions and commenced in FY21/22 but continuing into FY22/23 (e.g. our Long Unread Meter project that was described extensively in our previous submissions).

	Historical					Forecasts	
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2026-27
Meter Reading - Huntswood (Bilateral Submissions)							
Outsourced Costs - Consultancy Costs							
Meter Reading - (Lowri Beck)							

Since FY22 costs are known, and FY23 costs are already firm and baked into budgets, we consider a weighted average of FY22 and FY23 costs would mitigate the obvious scope for challenge.

Absence of pre-acquisition data further distorts the analysis

We recognize that granular data for the pre-existing costs of acquired entities is not necessarily available to the acquirors (nor under competition rules should it have been – although it would have been in Ofwat’s gift to seek it). But it is a fact that excluding cost data in respect of entities that no longer operate on a stand-alone basis (i) artificially reduces historic costs; (ii) skews median analysis; and (iii) ignores efficiency savings and economies of scale that have been achieved from combining smaller businesses.

To illustrate this point we have undertaken the analysis below in respect of Affinity for Business (“**AfB**”) which we acquired with effect from 1 April 2020. This analysis has largely been based on publicly available data (AfB’s audited accounts for FY18 – FY20). To that end we cannot be certain of the extent to which shared resources with the parent group, which are believed to have existed, have been factored into these numbers or represent additional unquantified costs.

This analysis indicates average running costs per unique customer of £[X] in FY18, £[X] for FY19 and £[X] for FY20, averaging £[X] over the three year historic period.

Affinity for Business (Retail) Ltd £m	Audited FY18	Audited FY19	Audited FY20	Assumptions
Revenue	58.512	60.071	67.346	
Gross Margin	4.00	3.59	0.043	
Other Income	0.48	0.30	0.342	
Staff costs	(2.58)	(3.25)	(3.30)	
Depn	(0.02)	(0.07)	(0.07)	
Amort	(0.01)	(0.04)	(0.12)	
Goodwill Impairment	0.00	(0.93)	0.00	
Op Lease	(0.06)	(0.17)	(0.15)	
Aud Remuneration	(0.03)	(0.03)	0.03	
Other costs	(1.04)	(0.71)	(0.23)	
Total Opex	(3.73)	(5.20)	(3.82)	
Bad debt Provision	(0.54)	(0.65)	(0.66)	
Profit/Loss	0.21	(1.96)	(4.10)	
Total Affinity SPIDS (est)				
Approx % of Group 1 customers				
Assumed vacancy rate				
Approx Unique Group 1 Customers (Occupied)				
Assumed meter read costs for Affinity				
Assumed meter read volume per customer				
Est Group 1 Running Costs (including meter reading costs)				
Est Group 1 meter read costs				
Est Group 1 Running Costs (excluding meter reading costs)				
<i>Inflationary Adjustment</i>				
Inflation adjusted Group 1 Running Costs				
Inflation adjusted Group 1 Running Costs per unique customer				

The impact of including/not including former retailers is illustrated below. Including AfB's costs pre-acquisition moves the median value from Ofwat's current calculation of £42.85 to £47.41. There is no similarly public data available for Invicta Water, acquired from SEW in 2018, to enable us to undertake a similar analysis for this entity, as accounts in similar detail are not available but, given the common underlying reason for the sale of these loss-making businesses, logic would suggest the result is unlikely to be materially different.

Retailer	Avg Cost Per Unique Service
Retailer A	£20.50
Retailer B	£27.99
Retailer C	£28.53
Retailer D	£38.29
Retailer E	£47.41
Retailer F	£51.30
Retailer G	£52.57
Retailer H	£58.33
[Retailer I]	£56.34
Median Retailer A - H	£42.85
Median Retailer A - I	£47.41

With AfB and Invicta each accounting for 3-4% of total SPIDs during their existence as separate trading entities, the exclusion of these entities represents a flawed methodology, especially when other retailers with an even smaller share of the Group One customer base (i.e. Everflow and SES) have been included.

Estimate of Each Retailers Share of Group One Customers included in Ofwats Analysis

Total <1000l/d	FY18/19	%	FY19/20		FY20/21		FY21/22	%
Group 1 SPIDs								
SES	12,299	1%	14,182	1%	10,832	1%	16,868	1%
Everflow	10,719	1%	25,803	2%	33,145	3%	55,038	4%
Water2 Business	85,703	6%	85,901	6%	81,800	7%	94,325	7%
Pennon	95,640	7%	94,335	7%	71,295	6%	92,875	6%
Business Stream	224,716	16%	225,080	16%	181,975	16%	232,982	16%
Wave	251,998	18%	246,695	17%	199,473	17%	243,925	17%
Castle Water	347,806	24%	333,689	23%	259,293	22%	322,754	22%
Waterplus	417,647	29%	395,936	28%	329,250	28%	388,680	27%
Total	1,446,528		1,421,621		1,167,063		1,442,858	

Recalculated Share taking into account Pre Acquisition holdings of Affinity & South East

Total <1000l/d	FY18/19	%	FY19/20	%	FY20/21	%	FY21/22	%
Group 1 SPIDs								
SES	12,299	1%	14,182	1%	10,832	1%	16,868	1%
Everflow	10,719	1%	25,803	2%	33,145	3%	55,038	4%
Water2 Business	85,703	6%	85,901	6%	81,800	7%	94,325	7%
Pennon	95,640	7%	94,335	7%	71,295	6%	92,875	6%
Business Stream	224,716	16%	225,080	16%	181,975	16%	232,982	16%
Wave	251,998	17%	246,695	17%	199,473	17%	243,925	17%
Castle Water	237,463	16%	272,068	19%	259,293	22%	322,754	22%
Waterplus	417,647	29%	395,936	28%	329,250	28%	388,680	27%
South East	48,722	3%	n/a	n/a	n/a	n/a	n/a	n/a
Affinity	61,621	4%	61,621	4%	n/a	n/a	n/a	n/a
Total	1,446,528		1,421,621		1,167,063		1,447,447	

Source: MOSL data

Ofwat is wrong to presume that retailers with lower average costs have made efficiency gains and those with higher average costs have made no efficiency gains

Ofwat has asserted that there is “little evidence that Retailers have made efficiency gains” on the basis of an analysis that ignores the historic costs of retailers who have exited the market. Ofwat has therefore failed to recognise (i) the loss-making nature of such entities (ii) the high running costs per customer of these entities and (iii) the efficiency gains that have been made by the acquiring retailer (e.g. by combining water and wastewater SPIDs (which Castle was able to do with both its AfB and Invicta acquisitions) and providing one bill for two services).

To illustrate this point we include the following data [X]. Further, the c. £[X]m of annual Group One running costs incurred by AfB up to the point of acquisition was eliminated altogether, giving a market-wide reduction in the cost to serve Group One customers of c. £[X]m (i.e. £[X]m reduction in Castle’s FY21 costs in FY21 + £[X]m elimination of AfB’s FY20 costs).

	FY18	FY19	FY20	FY21	% Change FY20 to FY21
CW Group 1 Customer No					
CW Group 1 Running Costs £m					
CW Group 1 Running Costs per Customer £					
Affinity for Business Running Costs £m					

Ofwat’s exclusion/adjustment of certain costs in its calculation of Castle’s Group One average cost to serve reduces Castle’s costs inappropriately.

- Ofwat has deemed that revenue is a more appropriate driver of non-attributable costs such as depreciation and amortisation, on the basis that larger customers drive a higher proportion of this cost than smaller customers. We disagree. The costs included in our depreciation charge relate to plant, property and equipment – costs that are impacted more by staff numbers than revenue per customer. Staff numbers in turn are impacted by the number of customers served, [redacted].

We propose that either the original driver is re-instated or an alternative headcount driver used.

- Ofwat have excluded all of Castle’s amortisation costs on the presumption that 100% of these costs relate to customer book acquisition costs. This is incorrect. Our amortisation charge is split between customer book acquisition costs and amortisation charged on the cost of development of software packages owned and controlled by Castle. These packages are used directly in the fulfilment of our services to customers and for the purpose of improving efficiency and the cost to serve them. The split is outlined in the table below.

Amortisation Expense £'000	Reported				
	FY18	FY19	FY20	FY21	FY22
TOTAL					

If Ofwat expect retailers to make efficiency savings there has to be a realisation that investment is required; that it requires funding; and that hurdle return rates have to be met for that investment to be made.

- [redacted]
- [redacted]
- [redacted]

- Ofwat have excluded amortisation costs associated with customer book acquisition costs from the calculation of average cost to serve on the basis that these costs are driven by retailers' own plans for expansion and future growth and therefore that they do not relate directly to the costs associated with the provision of day-to-day services to business retail customers. We disagree:
 - [X]
 - Ofwat ignores some key reasons for acquiring customer portfolios which are pertinent to this review. These are: (i) in order to drive efficiencies of scale and the efficiencies of combining separate water and wastewater services; (ii) [X]; and (iii) sellers of portfolios were making significant losses based on the size of their portfolios/lack of economies of scale, and lack of sufficient margins.
- Ofwat have excluded exceptional costs [X]. These are market friction costs. By excluding these costs Ofwat has, contrary to its assertion, removed costs that have arisen as a result of market frictions. These should be re-instated in the calculation of Group One running costs.

Ofwat's view of efficiency is flawed

- In setting the level of allowance, Ofwat appears to have made the presumption that differences in relative costs of retailers can be explained by differences in efficiency, yet provides no evidence to support its assertion that the "more efficient" retailers have managed to reduce costs. The gap between the lowest and highest cost operator is so high (the cost bases of four retailers are more than 2.3 – 2.8 times the cost base of the lowest cost retailer) that it is not credible to believe that inefficiency is the main reason for the differences, especially when NHH retailers as a whole are largely loss making.
- Data provided by Ofwat on each retailer's costs over the historic period appears to provide no foundation upon which this assertion is made [X].
[X]
- Reduced costs in any one year do not necessarily imply efficiency gains. [X]. Based on our own experiences we would hypothesise that, for those retailers with lower costs in FY21/22, these reductions are less likely to be efficiency savings and more likely to have arisen from the aftermath of Covid-19, which has seen changes to working practices with less need for office space as more people continue hybrid working, reduced travel costs as people have become used to interacting via Zoom and Teams, and lower staff costs as difficulties in recruiting staff leave higher than normal levels of vacant positions.

This is not to say that organisations are not trying to make efficiency gains – rather that factors outside retailers' control such as market frictions prevent any real progress being made. Unless and until Ofwat understand the reasons for the wide differences in costs between retailers, no meaningful measure of "efficient retailers" can be warranted.

Ofwat has failed to understand or adequately account for the impact of market frictions

While Ofwat's intention had *not* been to remove retailer costs that may have arisen as a result of market frictions, its lack of recognition of these in its methodology and selection of the level of "efficient" running costs has resulted in exactly that. And while these frictions remain in the market

the efficient level of running costs will be unachievable. These go far beyond the de-registrations that Ofwat has chosen to select as a separate identifiable cost item, but even within that constraint they serve to show that these costs (i) are not within the sole control of retailers to resolve; (ii) impact retailers differently; (iii) give rise to regional variations; and (iv) require retailers to spend significant time, effort and therefore cost (including extreme actions such as litigation) resolving; and (v) are far from diminishing or being a resolved issue. These are exemplified below.

(i) *Costs outside retailers' control*

The following bar chart shows the impact of de-registrations on Castle's running costs. By stripping these out one can see the disproportionate changes in de-registrations compared with running costs as a whole which, with the understandable exception of the Covid-impacted FY21, remain broadly flat.

CW Running Cost FY19-FY22



(ii) *Variation among retailers*

Table 3.2.1 in Annex A to the Consultation Document demonstrates a clear variation in the impact of de-registration costs among retailers, with Castle accounting for 89% of all retailers' deregistration costs.

Table 3.2.1 - Total Retailer reported Group One running costs across period (2017-18 to 2021-22)

Cost Category	Total Retailer historical reported cost (£m)	Percentage of total running costs (%)
Customer retention	1.56	0.5%
Customer acquisition	2.89	0.8%
De-registrations	10.63	3.1%
Non attributable costs	13.37	3.9%
Debt management	48.7	14.1%
Billing costs	53	15.4%
Contact costs	63.92	18.5%
Other operating costs	150.86	43.7%
Total	344.93	100.0%

Castle Water Data

Castle Water FY18-22* (£m)	% of Total CW Running Costs	% of Total Retailers Costs
		89.0%

* data is before ofwat identified inflator error

Market frictions will impact different retailers included in the analysis in very different ways – for example, new entrants without legacy portfolios will suffer far less from frictions pertaining to legacy data; and wholesalers in different wholesaler areas differ in their response to resolving these frictions. Using the median across retailers with different exposure dilutes the impact.

(iii) *Regional variation*

Market frictions also show significant regional variation. Deregistration volumes for the current year FY23 are shown in the table in Appendix 1 hereto. This shows that the volume of MC1 transactions is heavily concentrated in areas where the retailer has inherited a customer base from the former incumbent.

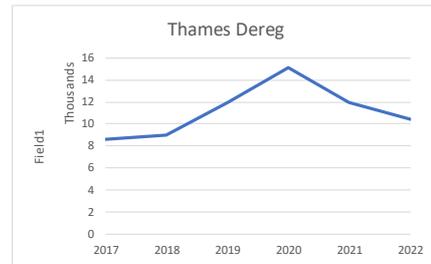
(iv) Retailers spend significant time, effort and cost on resolving market frictions

Over [3<] % of Castle’s average running costs relate to just one form of market friction – de-registrations. We have invested significant resource to trying to resolve/reduce frictions, with limited success.

The graphs below show that immediately after each retail business acquisition there is a marked uptick in the volume of de-registrations, which typically reduce within a year or two of acquisition. This is not the case with Thames Water, where the effect continues to be much more sustained.

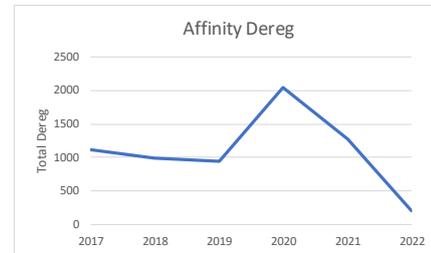
DEREGISTRATION TYPE TABLES					
Thames Deregistrations					
Number of deregistrations by type					
Year					
2017	2533	1315	2117	2622	8587
2018	1376	1042	272	6317	9007
2019	4184	2106	98	5605	11993
2020	6487	2526	32	6039	15084
2021	4079	882	32	6933	11926
2022	529	24	23	9896	10472
Grand Total	19188	7895	2574	37412	67069
As % of CW Thames SPIDs*	4.76%	1.96%	0.64%	9.28%	16.64%

*From 28/03/2022 All CW SPIDs



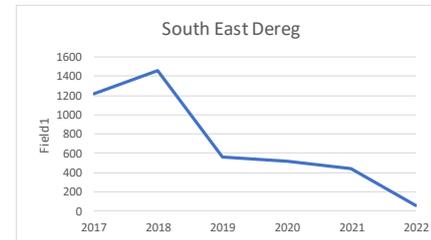
Affinity Deregistrations					
Number of deregistrations by type					
Row Labels	EXIT	NOSP	PDISC	SPERR	Total Dereg
2017		51	31	353	686
2018		126	10	188	660
2019		276	0	135	535
2020		211	0	181	1657
2021		302	0	57	907
2022		74	0	35	101
Grand Total	1040	41	949	4546	6576
As % of CW Affinity SPIDs	1.77%	0.07%	1.62%	7.74%	11.20%

*From 28/03/2022 All CW SPIDs



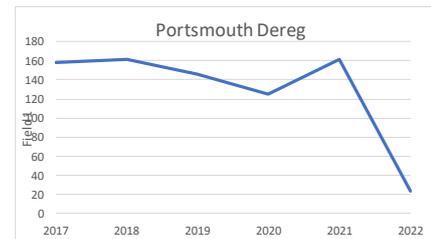
South East Deregistrations					
Number of deregistrations by type					
Row Labels	EXIT	NOSP	PDISC	SPERR	Total Dereg
2017		1126	0	95	1
2018		1149	0	79	231
2019		191	0	57	308
2020		172	5	65	277
2021		142	0	41	257
2022		19	1	19	20
Grand Total	2799	6	356	1094	4255
As % of CW South East SPIDs*	7.28%	0.02%	0.93%	2.84%	11.06%

*From 28/03/2022 All CW SPIDs



Portsmouth Deregistrations					
Number of deregistrations by type					
Row Labels	EXIT	NOSP	PDISC	SPERR	Total Dereg
2017		104	0	54	0
2018		62	0	36	63
2019		42	0	67	37
2020		52	0	28	45
2021		58	0	47	56
2022		6	0	8	10
Grand Total	324	0	240	211	775
As % of CW Portsmouth SPIDs*	2.78%	0.00%	2.06%	1.81%	6.66%

*From 28/03/2022 All CW SPIDs



Ofwat has nonetheless elected to remove Exceptional Costs from Castle’s submission, a large proportion of which relate to high court legal claims against Thames Water and in respect of legacy data issues. Excluding these costs is contrary to Ofwat’s assertion that “we have not sought to remove Retailer Costs that may have arisen as a result of market frictions”.

These costs specifically arose as a result of market friction and the wholesaler’s failure in respect of licence obligations and data assurances given to Ofwat at the time of market opening.

This is supported by the focus of the MOSL Panel (including Ofwat and MOSL itself) on reducing the volume of never-read meters, and the focus on long-unread meters in Ofwat's own reports on the market. It is worth noting, therefore, that we also suffer a high cost associated with resolving issues associated with CMOS data errors on metering, typically involving at least several months' work, multiple bilaterals, and multiple site visits, with a cost which in each case will be a multiple of the ACTS for the customer. In the absence of intervention from Ofwat to ensure that data is properly maintained, this cost falls on retailers with deemed contract customers. We have spent over £[X]m over the past 12 months dealing with never-read meters.

(v) *Market friction costs show no signs of diminishing in the short term*

Market friction costs show no sign of diminishing in the short term, as clearly illustrated by data below on de-registration activity since 1 April 2022. This is particularly true in the Thames wholesale area, where between [X]k SPIDs per annum have been de-registered since market opening, with a further [X]k transacted for the year to date, representing 85% of our total de-registration activity this year. The year-end outturn will not be dissimilar to historic annual volumes, with Thames having already indicated to Castle in August that they expect to submit [X]k wholesaler-led de-registrations for premises they have identified as not eligible for the English NHH market.

Deregistrations since 1 Apr 22

Wholesaler	No of SPIDS	%
AFFINITY-W		6%
ANGLIAN-W		1%
NORTHUM-W		0%
PORTSMOUTH-W		1%
SEVERN-W		1%
SOUTHEAST-W		4%
SOUTHERN-W		2%
SOUTHWEST-W		0%
SUTTON-W		0%
THAMES-W		85%
UNITED-W		0%
WESSEX-W		0%
YORKSHIRE-W		0%
Total		100%

De-registration forecast costs included in Castle's RFI submission for FY23 were based on a volume of [X]k de-registrations. It is clear from the above that this forecast will be surpassed, giving rise not only to additional running costs but also to additional working capital costs, neither of which is appropriately being factored into the REC based on the methodology of historic data and the concept of notionally efficient retailers who have full control over all of their costs.

Meter reading costs

We comment on the following aspects of Ofwat's analysis of meter reading costs:

- Retailers' costs cannot justifiably be assessed as similar.
- Historic meter reading costs are not a basis for assessing forward-looking costs.

- Costs differ substantially on a regional and wholesaler basis.
- Our estimates of current and future costs are reliable and realistic.

Retailers' costs cannot justifiably be assessed as similar

The RFI to which the Narrative Document responds seeks past and future data not only in relation to the direct costs of meter reading contracts but also to the “Costs associated with meter reading for non- household customers – including ad hoc read requests, cyclical reading, scheduling, transport, physical reading, reading queries and read processing costs, managing meter data plus supervision and management of meter readers”. Our RFI return and Narrative Document included these costs, together with the cost of follow-on management of skipped reads and an in-house field team to undertake site visits to complex accounts or difficult to access customer premises.

Ofwat asserts, broadly, that differences between retailers' meter reading costs are due to their choices in relation to meter reading contractors, and that the latter offer national prices. Whilst “some Retailers face relatively high average meter read costs in some regions”, these are “likely reflective of varied meter reading cost arrangements adopted”.

On that basis, Ofwat applies a national average meter reading cost and an efficiency challenge based on the median of the weighted (by number of reads) average retailer cost per meter read.

However, the very wide spread of actual costs vitiates the underlying assumption, not only for Castle but for retailers generally; in particular those with customer bases acquired from former incumbents.

Our bare meter reading cost (i.e. meter reading contractor costs) in FY22/23 is £[<] per meter read. Our central cost is £[<] per meter read. Our overall costs as reported are therefore [<] those of the selected median.

Moreover, our meter reading contractor costs result from a comprehensive tender process (described below) that enabled us to optimise the costs within the constraints presented in tender responses. It was, for example, clear from this process that many wholesalers do not offer meter reading services; and that only one other provider offered a national service but subject to regional volume conditions that made its offering unviable for us or for it.

These facts not only invalidate Ofwat's assumption that all metering costs result entirely from retailers' unconstrained contracting choices, but also demonstrate that we are at the efficiency frontier.

Historic meter reading costs are not a basis for assessing forward-looking costs

Historic costs are not a proxy for forward-looking costs. This is particularly the case for meter reading costs. Despite seeking cost forecasts, Ofwat has eschewed using them on the basis that they are speculative, instead treating historical costs as indicative of future costs and benchmarking against them. Our cost estimates for FY23 and beyond are, however, firmly based on known plans and quantities based on actual contracts, and should form the basis of our assessed cost.

Costs differ substantially on a regional and wholesaler basis

Ofwat note lower than average meter reading costs in incumbent regions, due to wholesaler offerings, but that third party service providers offer universal pricing.

Both of these assumptions are factually incorrect.

Ofwat has used the median of each retailer's weighted average meter reading costs, as:

"This sidesteps simply comparing meter reading costs across all Retailers for each wholesale region, since legacy market arrangements mean that one Retailer typically has a large market share in each region and is therefore responsible for the majority of meter reads in that region."

From this Ofwat draws the sweeping presumptions that weighted averages are "unlikely" to reflect systematic differences in regional meter reading costs; and that, whilst "some Retailers face relatively high average meter read costs in some regions", these are "likely reflective of varied meter reading cost arrangements adopted".

The use of median costs means, however, that the costs of a new entrant with a small number of SPIDs and customers that it has been able to select, and thus avoid the legacy issues that affect the larger retailers, will skew the average disproportionately. This presents the larger retailers with an inherent cost challenge to meet even before the regulatory 'efficiency challenge' is applied.

As we explain and detail below, the cost of meter reading is subject to many external factors relating to location and whether a wholesaler offers an 'in-house' meter reading service. These will produce a wide range of cost outcomes for a retailer. This demonstrates the necessity of ensuring that the distribution of retailer meter reading costs is also used in benchmarking and understanding meter reading costs. A simple average is insufficient, and a median value will completely ignore the distribution of costs. A median does not simply throw away any extreme outliers, it throws away most of the detail. The median value is unchanged whether our costs are 5% or 500% above the median; or, more importantly, whether the semi-interquartile range of retailer meter reading costs (or something similar which focuses on the majority of retailer costs bar the more extreme values) is +/-5%, +/-50% or +/-500%.

That the distribution is lost in determining the median value is apparent when the data suggests that the costs of all of the larger retailers sit above the median value and, despite the significant proportion they represent of the total number of meter reads required, they have effectively played no role in setting the median value. Put another way, if each of those larger retailers were for calculation purposes broken down into a number of smaller units no larger than that represented by the retailer which did set the median value, there would likely be a considerably greater number of data points, almost certainly pushing the median value out to equal one of those disaggregated larger retailer's cost. This shows the irrationality of this approach.

Another issue with the approach is that a large number of different costs have been aggregated. It would be better to compare the retailers' costs for those key components – as a minimum: central metering costs per read; wholesaler meter reading costs per meter; and national contracting meter reading costs per meter. In each case, any average must be considered along with the distribution, which may need to be further disaggregated in order to determine whether similar costs and differences can be attributed to strategic choices or inefficiencies.

Our estimates of forward-looking costs are reliable and realistic

The Ofwat RFI included requests for retailer data on forward looking costs for the years 2022-23 and 2026-27 but has discounted these. It states: "Accordingly, we have had regard to Retailer forecast data for 2022-23 and 2026-27 but data for these years have not formed part of our assessment of efficient forward-looking costs, since such data is based on a subjective forward view rather than an

objective recording of outturn values". It is, however, clear that Ofwat has not in fact 'had regard' to this data.

In the case of meter reading costs for FY23 we have actual prices for reading services; firm contracts with specialists; dedicated staff to manage contracts and follow-on work; and robust data for the volume of such work. In reply to Ofwat's follow-up query CAS-RFI-001, we enumerated in some considerable detail, with supporting evidence, the basis on which we had calculated meter reading costs (including foreseeable savings) for FY23. We urge Ofwat to use this as the basis for its assessment of efficient forward-looking costs, as these calculations are concrete and reliable.

The following passages set out in more detail the facts underlying our FY23 metering costs:

Bare meter reading costs

National contracts are not available at a national price

Although we retain an internal meter reading capability for the specific purposes we explained in our previous submissions, the vast majority of our meters are read by external contractors in order to reduce the cost to serve. Those contractors typically charge a price per type of meter read (e.g., monthly, biannual, ad-hoc, transfer read, etc).

In FY22, Castle Water publicly tendered for a national meter reading service with effect from 1 April 2022 and received two responses.

The first tender response offered the following regional pricing:

Area	Monthly		Quarterly		Bi Annual		Annual	Transfer Reads	Ad Hoc	Appointed Reads
	VMR	AMR	VMR	AMR	VMR	AMR	VMR			
Affinity										
Anglian										
Bristol										
Northumbrian										
Portsmouth										
Scotland - Onshore										
Scotland - Offshore										
Severn Trent										
South East										
South Staff										
South West										
Southern										
SSE now LEEP										
Sutton										
Thames										
Unit Utilities										
Wessex										
Yorkshire										

The offer incorrectly assumed, however, that the contractor would be reading all of Castle’s substantive meter portfolio in each area. When we advised that we planned to continue to use wholesaler meter reading services where possible, the tenderer would not contract without a

minimum volume which we could not accept without undermining the overall economic viability of the service in the areas in question.

The second tender response offered the following national prices, but without the requirement for minimum volumes, and therefore proved to be a more suitable basis for Castle Water to contract:

Job Types	Meter Reading Service	Fee
Annual, biannual, quarterly, or monthly cyclic water Single Meter Reading	<u>Scheduled Meter Reading</u>	
	Charge per Successful Data Capture per Meter	
Transfer Read, first Meter at property	<u>Non-Scheduled Meter Reading</u>	
	Charge per Successful Data Capture per Meter	
Must Get Read, first Meter at property	Charge per Successful Data Capture per Meter	
Appointment visit – all day	all day - Charge per scheduled visit	
Appointment visit – am / pm	am/pm - Charge per scheduled visit	
Appointment visit – 2 hour banded	2hr band - Charge per scheduled visit	
Special Requirements (e.g. two man lift team, difficult to get to sites)	Charge per scheduled visit	
key collection service – (additional to manual Data Capture Service)	Charge per scheduled visit	
Re-read (correct - photographic evidence)	Charge per scheduled visit	
	<u>Time & Material Rates</u>	
Meter Operative - Day Hire		
Meter Operative - Half-Day Hire		
Meter Operative - Hourly Rate		
Meter Operative - Travel and Accommodation		

Whilst a majority of our meter reads are charged at £[redacted] per visit, the table above shows that charges for some individual meter read visits can be considerably more expensive. Those higher costs are not factored into any of the analysis below.

Area prices are offered by only some wholesalers

Where a wholesaler offers a meter reading service in its area, its prices for reading biannual meters are typically less than those of a national contractor (though there are notable exceptions, including Portsmouth Water and Affinity Water).

There are, however, many wholesaler areas where there is *no* wholesaler meter reading service offered. In addition, there are some types of reads where the wholesaler's meter reading service cannot match the specific scheduling requirements of a retailer or its customers (for example, the requirement to read a biannual meter monthly, or to read it in a given month, or to read that meter in a given week of the month). It is therefore necessary to meet these requirements through a supplementary meter reading service contract.

For our more significant pairings:

- In the case of Thames Water and SEW, a meter reading service was no longer offered for FY23 and we had no choice but to move to a national meter reading contractor. [X]
- Portsmouth Water continues to offer a meter reading service, but in FY23 the [X] price has increased by 253% from £[X] to £[X]. Despite this price increase rendering the price higher than that of our national contract, the service is attractive for the relatively small volumes which Portsmouth represents, [X].
- Although the meter reading contract with Affinity Water [X] priced at £[X] per meter read in FY22, when we renewed that contract for FY23 the price increased by 17%. Unlike most wholesaler meter reading services, which largely deliver the service in-house, Affinity Water's service is largely subcontracted to a national meter reading provider, which results in it charging higher prices on biannual meter reads than other wholesalers.

In other wholesaler areas:

- We have agreed meter reading services with [X].
- We are currently finalising meter reading contracts with [X], which we hope to be operational by December 2022.

Under each of these five contracts, however, and within the scheduling constraints mentioned above, although the wholesaler's price of a meter read visit on a biannual meter is at a considerable discount relative to our national meter reading service, it has limited impact on Castle's overall average cost to serve, as we have relatively small customer bases in those wholesalers' areas and still have to employ a national contractor on other reads.

Wholesaler prices differ materially from those of other providers

Wholesalers' prices for reading retailers' biannual meters are typically below those which any national meter reading service contractor can offer, because they can combine the reading of non-household biannual meters with their much larger population of household meters.

However, this allows wholesalers to price their offers only because of a cross-subsidy. This is most clearly revealed where wholesalers price their biannual meter read service at a considerable discount to their monthly meter reading service. Normally, one would *not* expect the unit price to increase where one buys more of a product or service. Here, many wholesalers price each meter read visit conducted twelve times per annum considerably higher than for each meter read conducted twice per annum.

For example, the pricing offered by [X] for monthly reads is £[X], which is +152% on its biannual meter reading pricing of £[X]. The true cost is therefore greater than that of the national meter reading contractor at £[X] (+15%) if that wholesaler were not to have the advantage of an inherent cross subsidy introduced by combining the non-household biannual meter reading with meter reading schedules for its household meters.

The resulting impact is to offer a relative cost advantage to retailers with meters predominantly located in areas where wholesalers offer discounted pricing on biannual meter reading, and a material cost disadvantage to retailers whose meters are largely located in areas without a wholesaler meter reading service, which is amplified by the proposed REC methodology.

This disproves the assertion that there is no regional difference in pricing. No retailer can ignore the discounted pricing on offer in some wholesaler areas in favour of an exclusive national contract. Equally, without a household portfolio to read, no national meter reading contractor can compete.

For further evidence of regional cost differences, we consider a case where pricing varies for similarly sized metering portfolios in two different areas.

If we take Castle's portfolio of meters as of October 2022 and assume that the meter reading service which we are currently finalising with [X] had been operating for the whole of FY23, the contractor cost of reading our entire population of Group One biannual meters twice in a year and Group One monthly meters twelve times a year would be £[X]m, with an average cost per meter read of £[X]. If, however, Castle Water's portfolio of meters in the Thames area were in the [X] area, the raw meter reading cost would fall by £[X]m to £[X]m and the average cost to serve would fall by 30% to £[X] per read.

The distortions introduced by wholesaler meter reading pricing of biannual meters, and the lack of wholesaler meter reading services being offered in all wholesaler areas, therefore introduces significant regional differences in the cost of meter reading services to retailers based solely upon the location of their meters across the wholesaler areas.

Either this must be recognised in the allowances offered under the REC, or Ofwat needs to consider regulating the pricing of wholesaler meter reading services and introducing an obligation on all wholesalers to offer a service.

Indirect Costs also vary by region

Where wholesaler meter reading contracts are managed and delivered by that wholesaler's own staff, materially superior outcomes can be achieved compared with those of the national meter reading providers (or wholesalers offering managed services subcontracted to a national provider). In part, this is because of the asymmetry of information available, with the market failing to hold all of the details necessary to find and access a meter that are otherwise available to wholesalers.

This leads to skip rates for wholesalers typically at a level of about a third of those for national meter reading contractors (or to a lesser extent for a wholesaler which subcontracts its meter reading service to a national contractor). That is a significant difference in performance and leads to considerable additional costs of managing the resulting skips for retailers not enjoying such performance. This impacts on retailers' costs and customer outcomes across the service delivery chain – including billing, collections, complaints, and bilateral requests. It also impacts on market performance, as currently measured by MPS18 and MPS19, as well as the holistic measure of long-unread meters. Financial penalties and reputational damage result, despite the better outcomes being due more to location than to retailer performance.

The obvious conclusion is that the cost allowance under the REC should reflect not only the differences in regional costs but also the consequences of dealing with skip rates three times higher than those where the wholesaler is reading meters.

Bare meter reading costs – Price Summary FY23 v. FY22

The table below summarises the prices we pay for monthly and biannual meter reads in each wholesaler area for FY22 and FY23.

In areas where the wholesaler offers a meter reading service, whilst the vast majority of our meter reads are transacted at the prices shown in the table with that wholesaler, a limited number of meter reads may be transacted at the national contractor's price.

Wholesaler Area	FY22 Monthly	FY22 Bi-Annual	FY23 Monthly	FY23 Bi-Annual	Comments
AFFINITY-W					
ANGLIAN-W					
BRISTOL-W					
NORTHUM-W					
PORTSMOUTH-W					
SEVERN-W					
SOUTHEAST-W					
SOUTHERN-W					
SOUTHSTAFF-W					
SOUTHWEST-W					
SUTTON-W					
THAMES-W					
UNITED-W					
WESSEX-W					
YORKSHIRE-W					
Long Unread (Thames)					
Long Unread (Other)					
Never Read (All)					

The table above illustrates the regional differences in pricing, and the significant increase in pricing for FY23 as acquisition pricing of meter reading came to an end on 31 March 2022, either to be withdrawn or the prices substantially increased.

The following table compares the total costs by wholesaler area for FY22 and FY23 of reading our entire portfolio of meters for Group One customers to the frequency currently specified (either biannual or monthly), in each case based on the number of meters in our portfolio as at October 2022. Its purpose is to illustrate how for a given population of meters across our wholesaler areas the costs have changed between FY22 and FY23; it is not intended to show actual costs in FY22 where we would have managed a different volume of meters. It shows that the total raw meter reading cost has increased by 69%, from just over £[X]m to just over £[X]m.

Group 1 Customers - Annual Contractor Costs									
Wholesaler Area	#Monthly Meters	#Biannual Meters	FY22			FY23			Year on Year
			Monthly Cost (£) p.a.	Biannual Cost (£) p.a.	Total Cost (£)	Monthly Cost (£) p.a.	Biannual Cost (£) p.a.	Total Cost (£)	% Change
AFFINITY-W									17.0%
ANGLIAN-W									-71.5%
BRISTOL-W									-30.2%
NORTHUM-W									-71.5%
PORTSMOUTH-W									253.3%
SEVERN-W									-52.0%
SOUTHEAST-W									89.5%
SOUTHERN-W									-50.3%
SOUTHSTAFF-W									-58.1%
SOUTHWEST-W									0.0%
SUTTON-W									-30.2%
THAMES-W									134.1%
UNITED-W									-75.5%
WESSEX-W									-51.7%
YORKSHIRE-W									3.6%
TOTAL	569	206,109							69.1%
<i>Total Meter Reads per annum</i>	6,828	412,218							
<i>Average cost per read (monthlies recognised)</i>		419,046							
<i>Average cost per read (monthlies not recognised)</i>		413,356							

The weighted average bare cost per meter read has increased from £[X] to £[X]. However, if allowance is made for only two meter reads per year, then the true average cost per meter read has increased from £[X] to £[X], as we would not get an allowance for ten of the twelve reads per year on our population of 569 Group One monthly read meters.

These figures are based on reading our small portfolio of meters in the [X] area using a national contractor in FY23. However, we are currently in the process of contracting for a meter reading service from [X]. Due to the small number of meters in the [X] area, however, that contract would reduce our overall cost for that year by only £[X]k, and our average per allowable meter read cost from £[X] to £[X]. By moving to the wholesaler's service, our meter reading costs in that area would fall by 52.5% to an average cost per allowed meter read of just £[X], yet our overall cost base would fall by only 0.3%, given the insignificance of meters in that area within our overall estate.

Had our population of meters been concentrated in the [X] area, the outcome would have been quite different. In that scenario, the discounted pricing in the [X] meter reading contract would have made a significant dent in our cost base, taking out £[X]m in costs rather than the £[X]k which is our reality.

This illustrates the inappropriateness of using a single point average, such as a median, to represent the costs of all retailers where differences in those retailers' meter reading costs are large and principally explained by factors outside of the control of a retailer, such as the location of its meters and whether the 'right' wholesalers offer a meter reading service and on what terms. Such factors explain the wide distribution of retailer costs, as does the size of the overhead required to manage materially larger numbers of skips where there is no in-house wholesaler metering service available.

Actual Costs – Total Meter Reading

As per our previous submission, to our raw meter reading costs we need to add the central costs of the Metering Team and Field Team. In FY23, the amount budgeted for these activities is £[X]m.

Adding this to our raw metering reading cost of £[X]m gives a total estimated cost liability for FY23 of £[X]m. That would increase the average cost per meter read from £[X] to £[X].

As noted previously, this is without all of the additional meter reading costs, such as transfer reads, quarterly reads, a larger volume of meters scheduled monthly, and most significantly, the scheduling of large volumes of long-unread meters (including many never-read meters) and meters which are due to go long-unread.

Reads from other sources

We note Ofwat's remark that there is no deduction from the meter reading allowance for customer (or wholesaler) reads. In order to propose a total that an 'efficient retailer' would be able to achieve we have reflected the effect of these below, assuming that Ofwat is able to apply the same method to other retailers' costs.

Customer reads

Castle Water has actively promoted to our customers the value of meter reads and has regularly asked for customers to assist us by submitting their own readings. We have made the submission of meter reads quick and easy via online methods. Further, we have previously promoted the message to customers to submit meter reads by offering to pay £1 to 'Save The Children' for every customer meter read which we use in the market. Today, we actively email and text customers every month,

where we have been unable to gain a meter read asking for their assistance in providing a meter read.

Customer reads are not, therefore, 'free' reads as the measures just described require investment in IT and staff resources in terms of read validation, follow up and training. Moreover, these measures require repeated and sustained effort (that is why we have on many occasions emphasised the need for Ofwat to underpin these initiatives with a regular and sustained information campaign).

The numbers of such reads are therefore intrinsically variable month to month and over time. (For example, reflecting these factors, in the period July 2020 to September 2022 the monthly volume rose and fell within a range [X]k to [X]k. Whilst retailers can inform and influence the submission of customer meter reads, they cannot determine them. They are outside a retailer's direct control, as is recognised in the REC proposals.

Nonetheless, with active focus and promotion, Castle Water has become the leading retailer in the submission of customer meter reads into the market. By June 2022, Castle Water's share of all customer meter reads in the market had grown to over 46%. The average number of reads in the period cited above was c. 20% of our total reads, and this is taken into account below.

Wholesaler reads

We note an observation from the Market Performance Committee ("MPC"), which was recently echoed by MOSL, that Castle Water's pairing with Thames Water is one of the most significant in the market in the provision of meter reads from wholesaler smart AMI meters. The MPC is putting this forward as an exemplar for other pairings and is seeking to understand the barriers to others following that example.

From our experience there are many barriers, with the most obvious being the lack of penetration in smart metering. The meters are simply not there in the numbers required and in many areas they just do not exist. Even in the Thames Water area, the contribution of wholesaler reads is just 15% of the meter reads that we were required to take in the first six months of FY23. This percentage is also taken into account below. The next nearest wholesaler is 5.6% of meter reads and the modal value is 0%.

Castle supports the acceleration of smart metering rollout plans across wholesalers, but Ofwat must play a key role in approving investment plans within the forthcoming PR24 price control and in establishing necessary regulatory frameworks which require and promote smart metering.

Whilst some wholesalers, notably Thames Water, now recognise the value of sharing their metering data free of charge, other wholesalers still charge - many at a prohibitive level. These charges are often far more than the allowance of £3.78 per read proposed under the REC, or of the bare meter reading cost of sending out a contractor to visit the meter. It is inefficient and unnecessary for retailers to send out meter readers to read meters where the wholesaler already has data direct from that device.

Conclusion on meter reading costs

If Ofwat wishes to take the above into account in an 'efficient retailer' total, for us it would sum to 70% contractor reads, 10% wholesaler reads, and 20% customer reads.

On this basis, the £[X]m to be spent in FY23 on meter reading would reduce to £[X]m. Adding on to this the £[X]m central metering overhead gives £[X]m total Group One metering costs, equivalent to £[X] per read.

As we have amply evidenced, the cost of the central measures we have taken to deal with market frictions affecting metering are largely driven by the resources needed to address the volume of bilateral submissions, long-unread meters, and a Field Team to deal with the most intractable metering issues – all being issues that have devolved upon us by virtue of the indigence of wholesalers, [X].

Taking all the above into account we submit that our meter reading costs should legitimately be treated as those of a notionally efficient retailer, to be reflected accordingly in Ofwat’s methodology and our resulting meter reading allowance.

Customer bad debt costs

Ofwat’s proposed bad debt allowance for Group One customers is intended to reflect the level of bad debt an efficient retailer might incur on a BAU basis, with Ofwat’s view of “efficient” levels based on calculations using data weighted towards pre-Covid/pre-economic crisis periods and measures based on unweighted averages and medians.

We would disagree with the methodology applied here both in terms of the historic data used and the calculation methods applied – both of which serve to dilute the true underlying debt costs to organisations operating in the current market. We illustrate this in the below hypothetical calculation which assumes retailers ranging from low to high levels of bad debt across each year and assumes higher levels being provided for currently compared with historically (we cannot calculate actuals as the relevant data has not been shared by Ofwat). In this example there is a significant difference between using a weighted average and a median or unweighted average; the dilutive effects of using historic data is also evident here with the average, median and weighted average calculations for FY22 significantly higher than the three year calculation.

Hypothetical Illustration

Retailer	A	B	C	D	E	F	G	H	Total
Group 1 Revenue £	25	38	38	50	75	75	100	100	500
FY17/18 Group 1 Bad Debt	0	0.5	1	1.5	2	3	2.5	3	
FY18/19 Group 1 Bad Debt	0	0.5	1	1.5	2	2.5	2.5	3	
FY21/22 Group 1 Bad Debt	1	1	1.25	1.75	3	3	3	8	
% of mkt rev	5.00%	7.50%	7.50%	10%	15%	15%	20%	20%	

Bad Debt/Rev %	A	B	C	D	E	F	G	H
FY17/18	0.0%	1.3%	2.7%	3.0%	2.7%	4.0%	2.5%	3.0%
FY18/19	0.0%	1.3%	2.7%	3.0%	2.7%	3.3%	2.5%	3.0%
FY21/22	4.0%	2.7%	3.3%	3.5%	4.0%	4.0%	3.0%	8.0%

	Avg	Median	Wgtd Avg
FY17/18	2.40%	2.7%	2.70%
FY18/19	2.31%	2.7%	2.60%
FY21/22	4.06%	3.8%	4.40%
	2.92% 	2.7%	3.23%

Our challenge to Ofwat’s proposed methodology is based on the following:

- Bad debt will vary among retailers depending on their portfolio. Some retailers have inherited a legacy portfolio while others have been able to select their customers based on underlying credit risk and have been able to protect against bad debt via the terms of their contract – i.e. deemed contract customers will inherently carry higher bad debt risk than

contracted customers. The use of unweighted averages or means will skew the outcome unfairly towards those with higher proportions of contracted customers.

- Bad debt varies across regions of the country and across different sectors. As above, retailers with large legacy portfolios will be more susceptible to bad debt where they have exposure to regions or sectors where bad debt risk is higher.
- To the extent that the continuation of protection for customers in Group One prevents retailers from differentiating their pricing to reflect either higher or lower risk sub-segments of their portfolio, it is illogical for Ofwat not to use a weighted calculation that takes into account Group One portfolio risk in the market as a whole (as was done in Ofwat's previous decision on the two year bad debt uplift), rather than averaging retailers' rates where factors such as sector or regional exposure come into effect. The reason for the use of this different method is not explained.
- Ofwat's inclusion of two out of the three years of data relating to a period over four years old and ignoring current year data is misleading. (In the first year of market opening when most retailers started with a clean slate of debt provisioning it is not surprising that provisions in that year were lower than subsequently.) It does not represent the environment in which retailers are currently operating, where all retailers are being forced to increase their levels of provisioning across their whole portfolio.
- In using historic data Ofwat has again ignored the bad debt relating to entities no longer operating in the NHH retail market – e.g. Affinity, Invicta. To the extent the legacy debt was not included in the acquisitions of these entities, the figures ignore this.
- In Castle's particular position, and in reflection of the difficult trading environment we are operating in, our actual year end bad debt provision has been increased [X] from £[X]m to £[X]m with this increase therefore not factored into Ofwat's current calculations.
- Ofwat consider that setting the allowance at the level they propose would provide incentive for retailers to reduce their bad debt costs below the allowance, so gaining competitive advantage. This presupposes that retailers have control over customers included in their portfolios and customer insolvencies, or the underlying economic factors that give rise to greater insolvencies such as interest rate rises, inflation, fuel costs. It also presupposes that debt can be reduced without incurring further costs – retailers with higher than (Ofwat deemed) efficient levels of running costs and higher bad debt costs cannot concurrently achieve efficiencies across both aspects simultaneously.

As an alternative methodology we would propose the following:

- Use a weighted average across all the retailers and more relevant FY22/FY23 data. Using weighted averages across a more relevant time period would be in line with the approach taken in Ofwat's Covid Bad Debt calculations which looked at total debt as a percentage of total revenues and not as an average of retailers' bad debt percentages. It also looked at a more refined time frame and one more relevant to the circumstances.

- Alternatively, Ofwat could consider extending the equivalent of the 0.49% Covid bad debt provision across both Group One and Group Two for the period of the new REC, particularly if that period is determined as three years. Given that the current environment was not envisaged at the time the Covid bad debt covid provision was agreed there is justification for an extended bad debt allowance.

Consultation Question 7 – Do you agree with our approach to allowing indexation?

Yes.

Consultation Question 8 - Do you agree that we should revise the allowed net margin in respect of Group One customers to 2.0%? Do you have any comments on our approach to determining the level of allowed net margin?

No. We do not agree with the allowed net margin of 2% for Group One customers.

The PR14 methodology is no longer representative

We do not accept that the analysis of business retail costs undertaken at PR14 continues to constitute “a reasonable framework for determining an efficient level of Net Margin for water business retail services in respect of Group One customers”, and thus the appropriate starting point for Ofwat’s assessment. Subsequent events have shown that:

- Costs based on an assessed component of vertically integrated entities do not represent the costs of free-standing, separately financed, operators in the relevant part of the supply chain.
- The original assessment could not foresee, and therefore could take no account of, the extensive distortions caused by wholesalers’ failure to meet their licence obligation for meter asset and data quality to be market-ready. Nor were the market Codes designed to address these in an efficient and prompt manner, having been constructed on the basis that the market would operate in the way intended rather than how it has in fact operated.
- There is also some studied schizophrenia over the current and prospective extent of competition: the ‘bottom up’ assessment that formed part of the PR14 methodology has been deemed inappropriate “given the competitive nature of the market”. Ofwat states that “although we have not yet seen effective competition develop for the Group One segment, we do see some activity, which may increase over time, including as market frictions are resolved and customers become more aware of alternative propositions”. Ofwat also argues that “the presence of some competition in the market” justifies continued use of the 1% lower bound as at PR14.
- Ofwat nonetheless finds that competition among Group One customers is deemed sufficiently limited to justify the application of strict price caps for up to five years. (We note above the effect this will have in continuing to mute competition for these customers.)

External benchmarking

We do not accept that the retail industries chosen are “similar”, or that they constitute “appropriate comparators”.

Although Ofwat states that it has taken account of relevant regulatory determinations for retailers we see no such evidence. The widely divergent level of retail margins embedded in default margins across different sectors is obviously a significant determinant of competitive behaviour by retailers. This does not appear to have been fully analysed by Ofwat.

Annex A to the Consultation Document identifies a number of comparability problems and logical inconsistencies that are caveated but, in the end, swept aside - for example in relation to:

- Separate household and non-household margins in energy retail being available only for the 'Big Six'.
- Recent falls in MVNO margins being glossed over by reference to volatility in returns over time.
- Acceptance that Scottish Water Business Stream's return is influenced by its Scottish business, and that it is necessary to balance this against the English energy market, whilst maintaining that it remains a valid comparator.

Energy supply companies and MVNOs operate in markets which are much more mature and where returns are achieved primarily through competition rather than regulation (which is accordingly based to a greater extent on revealed costs than on regulatory assessment methods). MVNOs, in particular, operate under a system of wholesale provision that has been properly regulated and is long-established over several decades.

Scottish Water Business Stream is not an appropriate comparator. It is a publicly owned company funded by the Scottish Government through Scottish Water. Its funding costs will reflect this ownership structure, an advantage not enjoyed by other retailers. The Annual Audit report to the members of Scottish Water and the Auditor General for Scotland for FY21 notes "higher costs within Business Stream of £42.6 million net, as a result of increased activity in England", and reports that "a package of financial support provided by the Scottish Water group of companies via Scottish Water Business Stream Holdings to SWBS is in place to ensure its ongoing viability", suggesting that Scottish Water Business Stream's English operations are subsidized by its Scottish operations, which enjoy significantly higher retail margins as a result of the reassessment of wholesale costs in Scotland.

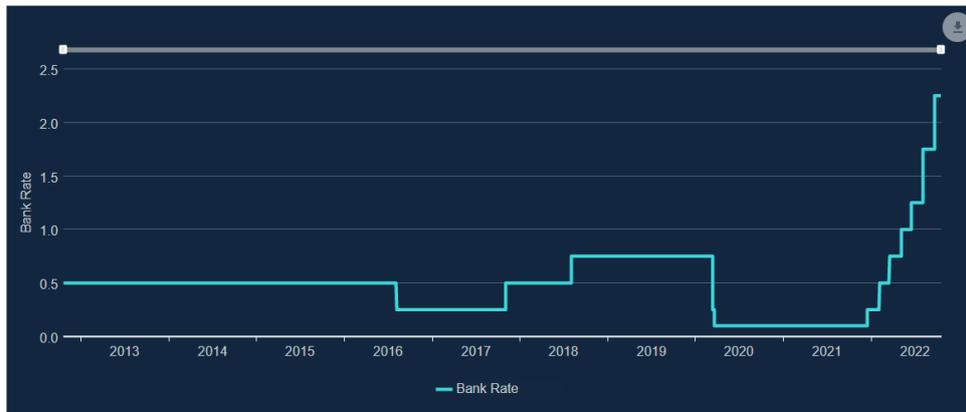
It is therefore methodologically wrong to use a range of returns taken directly from these non-comparable 'comparators'.

A number of additional factors also apply:

- Allowance should be made for the fact that, as we show in this response, the retail costs to serve already exceed the proposed ACTS.
- Assumptions in relation to working capital requirements of notionally efficient retailers are out of touch with the current environment which has seen debtor days elongate (particularly for SME customers) as a result of Covid, and now an inflationary environment; and takes no account of legacy data issues which are taking a protracted period to resolve. Earlier payment by customers can only be encouraged where customers can pay and where bills are correct and enforceable – the latter point requires underlying data to be accurate and underlying assets to be in working order. With backlogs of bilaterals with our main wholesaler (Thames) of up to 18 months, correcting data is not happening quickly enough, with the impact on working capital not insignificant.
- Interest rates on borrowing are moving from the lowest in recent history to unknown heights for an unknown period. This makes the use of historical rates irrational and demands use of current rates and, at the least, annual rather than five yearly review. The recent plummeting value of the pound has sent the interest rate on government debts to a 12 year high, with money markets predicting the Bank of England base rate could treble to

6% next year. At these levels, retailers will be unable to achieve reasonable risk-reward returns.

Official Bank Rate



- Account should also be taken of the fact that for an equity-funded retailer the cost of funding is much higher even than the latest borrowing costs. We refer to our previous submissions on this point.

Against this background, both the range adopted and the continuing use of an arbitrary mid-point (for which no substantive explanation is given) does not stand the test of reasonableness and consistency.

Consultation Question 9 – Do you agree with our proposed revisions to REC price caps for customer Group One?

No.

Our principal comment on Ofwat’s approach to the allowed net margin is in relation to its assertion that limited awareness, engagement and switching alone justify the level of ‘protection’ afforded by price caps based on its interpretation of reported costs and a flawed method of assessment.

Role of competition

Awareness of the benefits of competition stems from customers’ general knowledge of both the availability of competitive options and the nature of those options. We therefore have to ask where these have fallen short and why.

As set out in the report by Chris Decker, which we do not recite here, there are limits on the ability and incentive for retailers to compete actively, including on price, for customers that they can serve only at a loss because price controls are set below true costs to serve. Ofwat’s sole ‘evidence’ for lack of price competition rests on the assertion that ‘headroom’ for this exists in areas where tariff caps are higher; but this is the case only if one also accepts Ofwat’s incorrect assertion that the costs in those areas are similar to those in lower tariff areas, an illusion created by Ofwat’s average cost methodology. It is also arguable that if customers are aware that specific price caps are in place they are not incentivised to harness competitive dynamics.

There has also been a marked lack of initiative on the part of the authorities, including Ofwat, in promoting awareness of the market and dispelling mistrust among customers. In Scotland, WICS actively facilitated small-company engagement through a series of initiatives, including (i) producing an official brochure explaining the market, which retailers were able to give/send to potential customers; and (ii) creating an official website which captured customer information enabling retailers to provide quotes via a single enquiry form – the OpenWater website does not have this important functionality (and almost no customers are aware of OpenWater). The OpenWater website has a news page, with the most recent article dated 26-1-2021, suggesting the website is not properly maintained to inform customers.

It is also perverse to require retailers to subsidise small customers on the assertion that small customers do not engage with the market when Ofwat has failed to carry out obvious steps to raise awareness of the market.

Method of assessment

As set out above, we urge Ofwat to reconsider and correct:

For customer Group One:

- The balance between protecting customers through monopoly-style absolute price caps and its statutory duty to do so “wherever appropriate” through competition.
- The methodological flaws that we describe above, including notably (but without limitation) the need for:
 - A proportionate reflection of the actual costs to serve Group One customers, including meter reading and customer bad debt allowances.

- Recognition of the objectively justified cost variations deriving from regional, wholesaler area and customer portfolio factors.
- The elimination of “efficiency challenges” based on entirely artificial averaging methods.
- Abandonment or modification of the unfair and disproportionate ‘glide path’ (see further below).

For customer Group Two:

- The case for a properly constructed fallback cap for Group Two customers, including a bad debt allowance.

We set these out in more detail below in the format used by Ofwat.

Summary of Ofwat Proposals	Summary of Castle’s Response	Castle’s Proposal
Group One customers		
<p>We propose to express the maximum annual bill for a unique service that a retailer may charge a Group One Customer subject to price protections as the sum of: wholesale charge; plus retail ACTS; plus a meter read cost allowance (for measured water services); plus an allowance for customer bad debt costs given as 2% of the customer’s bill; plus an allowed net margin of 2%.</p> <p>On average our proposals represent a 0.1% increase in bills for business customers</p>	<p>In principle we agree that an England-wide retail allowance is a worthwhile aim.</p> <p>We have, however, very strong objections to the way in which Ofwat proposes to achieve this and therefore disagree with the level of allowance set</p>	
	<p>Retail ACTS - The level of ACTS is insufficient, backward looking and lacking real understanding of the additional costs predominantly arising from market frictions and therefore over which retailers have little control</p> <p>The gap between allowed and actual costs is so wide that “inefficiency” alone is not a credible explanation and thus setting ACTS at the lower end of the spectrum is not an acceptable outcome</p>	<p>Retailers’ costs should be revised to include relevant depreciation, amortisation (including costs associated with customer book acquisitions) and exceptional costs, where relevant, giving a truer retailer cost to serve Group One customers</p> <p>More focus should be given on current/forward looking costs, and periods not impacted by Covid-19, by using data across a narrower and more relevant period - FY21/22 and FY22/23</p> <p>In setting the level of cost to serve, consideration should be given to using weighted average cost to serve (rather than</p>

		median), recognising the higher incidence of legacy data issues vesting with incumbents who serve the higher volume of Group One customers
	Meter Read allowance is equally insufficient, backward-looking and lacking understanding of regional variations and legacy issues	More focus should be given on current/forward looking costs that reflect actual meter reading contracts, by using data across a narrower and more relevant period - FY22/23 In setting the level of meter reading allowance, consideration should be given to using weighted averages reflecting regional variations
	Bad debt cost methodology is flawed through use of medians rather than weighted averages, skewed towards periods pre-Covid/pre-cost of living crisis, and takes little account of the current/future economic outlook	Methodology underlying the bad debt allowance should be based on FY21/22 – FY22/23 data and based on a weighted average
	Not supportive of the downward adjustment to Net Margin	Net margin to be maintained at least at current levels (2.5%) and increased to reflect current market conditions e.g. Inflation, interest rates, low growth
We propose to apply a three year glide path to our proposed revisions to Group one REC price caps to help customers by limiting bill shocks – both up and down	The glide path methodology is flawed and in its current form unfair to retailers, taking three years before the ultimate allowance is reached and thereby providing additional efficiency challenges for retailers immediately from its launch; Its absence would not be considered detrimental to customers	Based on the current level of proposed ACTS, we consider the glide path unnecessary If ACTS were to be revised upwards to a level closer to the maximum cost to serve of comparable retailers, there would be greater appetite for a glide path that 1) has a

		cap/collar that takes into account the customer's total bill – not separated for ACTS and Net Margin; and 2) that reaches the cap within 2 years maximum
Group 2 customers		
We propose to retail REC price caps for Customer Group Two in the form of capping a Group Two customer bill at the customer's wholesale charge plus a gross margin set at 8% water and 10% wastewater	Given the current economic environment, and the breadth of Group Two which at the bottom end has customers more akin to Group One, we would propose an extension of the 0.49% bad debt allowance for the remainder of the REC period. Customers are already accustomed to this increased cost and therefore a continuation of this status quo would not cause them material additional harm	Extension of the 0.49% bad debt allowance for the new REC period – which, given the uncertainties over bad debt would also be consistent with treating the caps as 'fall back' in nature

Consultation Question 10 – Do you agree that we should protect Group One customers from material changes in the retail element of bills by using a 'glide path'? Do you have views on the timing and form of such a glide path?

We consider it unnecessary to impose a 'glide path' towards the ACTS caps (more usually known as a cap and collar) as Ofwat's proposals for ACTS currently stand in the Consultation Document.

The glide path as proposed is unfair to several retailers and not detrimental to customers

Ofwat suggests that a three-year glide path is justified given that the REC is intended to be reviewed in three to five years. That means that the ACTS may have been reached by some retailers in some regions for only one year before a new REC takes effect (and note that below we argue for the REC to be reviewed with effect from the end of year three).

It is patently unfair for those whose current tariffs are high to continue to benefit from that (and from the associated indexation). The graph below shows the discrepancies.



Those retailers whose tariffs are significantly below the ACTS would therefore remain loss-making for three years *absent* yet further draconian 'efficiency' savings, whereas others' tariffs are already above the ACTS.

Treatment of measured, assessed and unmeasured tariffs

A further mistreatment of some retailers arises from Ofwat treating metered and unmetered as separate categories and therefore with distinct glide paths for each.

As discussed in the Ofwat webinar, for wholesale area tariffs encompassing all of measured, assessed and unmeasured categories (as per Annex C – Proposed Amendments to the Retail Exit Code), the glide path calculation for ACTS currently includes metering costs, with the implication that the 25% cap/collar applies to FY23/24 prices. If it is Ofwat's intention for the unmetered customers in this tariff band not to be charged metering costs, inclusion of metering costs in the glide path calculation artificially deflates the price increase for unmetered customers compared with their being treated distinctly as they are in other wholesale areas. The tables below illustrate this point with unmetered customers' FY24 price being capped at £37.81 v. £40.83-£41.39

Glide Path per Current Ofwat schedule

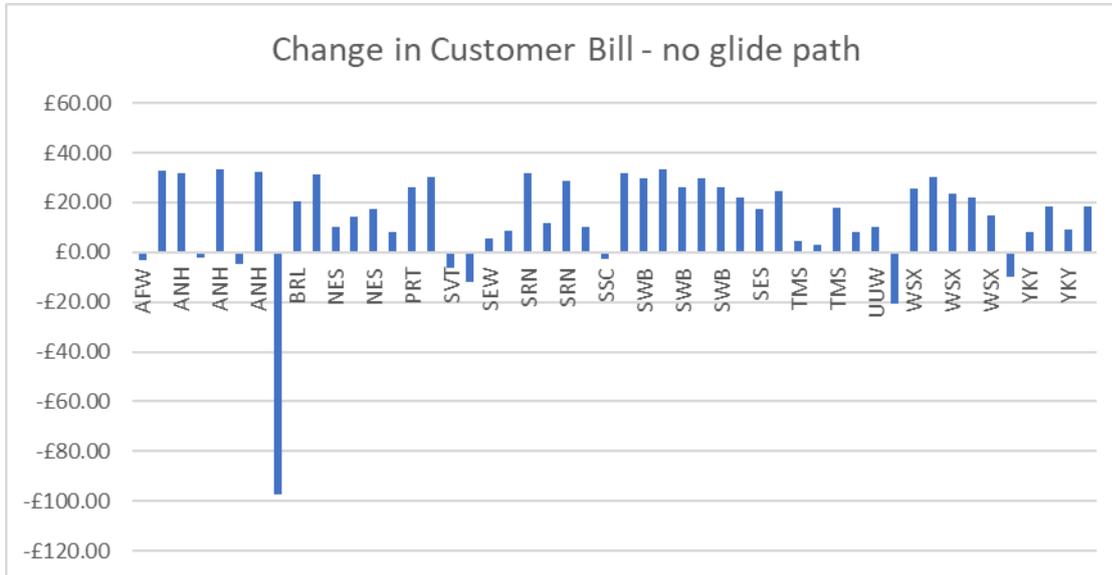
Wholesaler	service	service	FY23/24	Measured Water	Applicable Threshold	% Diff (relevant 25% threshold)	Within relevant 25% threshold?	FY23/24			FY24/25			FY25/26		
								ACTS	Meter Cost	ACTS + Meter Costs	ACTS	Meter Cost	ACTS + Meter Costs	ACTS	Meter Cost	ACTS + Meter Costs
AFW	water	measured or assessed; unmeasured	55.038	Y	45.96	-16%	within 25%	37.81	8.15	45.96	37.81	8.15	45.96	37.81	£8.15	£45.96
SVT	water	measured or assessed; unmeasured	55.183	Y	45.96	-17%	within 25%	37.81	8.15	45.96	37.81	8.15	45.96	37.81	£8.15	£45.96
SSC	water	measured or assessed; unmeasured	54.445	Y	45.96	-16%	within 25%	37.81	8.15	45.96	37.81	8.15	45.96	37.81	£8.15	£45.96

Alternative Glide Path if measured and unmeasured treated separately

Wholesaler	service	service	FY23/24	Measured Water	Applicable Threshold	% Diff (relevant 25% threshold)	Within relevant 25% threshold?	FY23/24			FY24/25			FY25/26		
								ACTS	Meter Cost	ACTS + Meter Costs	ACTS	Meter Cost	ACTS + Meter Costs	ACTS	Meter Cost	ACTS + Meter Costs
AFW	water	measured or assessed	55.038	Y	45.96	-16%	within 25%	37.81	8.15	45.96	37.81	8.15	45.96	37.81	£8.15	£45.96
AFW	water	unmeasured	55.038	N	37.81	-31%	<-25%	41.28	0.00	41.28	37.81	0.00	37.81	37.81	£0.00	£37.81
SVT	water	measured or assessed	55.183	Y	45.96	-17%	within 25%	37.81	8.15	45.96	37.81	8.15	45.96	37.81	£8.15	£45.96
SVT	water	unmeasured	55.183	N	37.81	-31%	<-25%	41.39	0.00	41.39	37.81	0.00	37.81	37.81	£0.00	£37.81
SSC	water	measured or assessed	54.445	Y	45.96	-16%	within 25%	37.81	8.15	45.96	37.81	8.15	45.96	37.81	£8.15	£45.96
SSC	water	unmeasured	54.445	N	37.81	-31%	<-25%	40.83	0.00	40.83	37.81	0.00	37.81	37.81	£0.00	£37.81

The impact on customers of removing the collar is not significant

Assuming no glide path, the average increase in a customer’s bill (based on a £300 wholesale charge) would be £13.61, ranging from a maximum reduction of £97.52 to a maximum increase of £33.57.



The meter cost allowance should not be included in the glide path calculation

By including the meter cost allowance in the glide path calculation (yet still maintaining it as a separate component), the effect for retailers is that metered tariffs will take longer to reach the allowed CTS cap than unmetered tariffs. There will therefore be a greater differential between actual costs and allowed costs for metered customers than for unmetered. This is despite the fact that both sets of customers will entail a similar cost to serve (notwithstanding meter reading, which is priced separately).

In the illustration below the unmetered retailer will be able to charge the metered customer £34.57 in year one of the REC compared to a much lower £26.90 for the unmetered customer. While a separate meter charge of £8.39 will be available for serving the metered customer this will be fully consumed by the separate metering allowance associated with a metered customer. With all but one of the retailers in Ofwat’s analysis currently operating at average costs of more than £26.90, unmetered customers as a whole will be loss making to retailers if they not only cannot meet the challenging level of ACTS set but in addition have to find a further £12.83 of savings per customer.

Ofwat Glide Path Methodology							FY23/24			FY24/25			FY25/26			
Wholesaler	service	service	Curr REC Adjusted to 23/24 prices	Measured Water	Applicable Threshold	% Diff to Threshold (excluding meter cost)	% Diff to Threshold (including meter cost)	ACTS	Meter Cost	ACTS + Meter Costs	Adjusted ACTS	MC	Total	ACTS	Meter Cost	ACTS + Meter Costs
TMS	water	measured or assessed	28.24	Y	48.12	41%	70%	£26.90	£8.39	£35.29	£33.63	£8.39	£42.02	£39.73	£8.39	£48.12
TMS	water	unmeasured	27.65	N	39.73	44%	74%	£34.57	£0.00	£34.57	£39.73	£0.00	£39.73	£39.73	£0.00	£39.73

Alternative Glide Path - collar cap based on ACTS excluding meter read							FY23/24			FY24/25			FY25/26			
Wholesaler	service	service	Curr REC Adjusted to 23/24 prices	Measured Water	Applicable Threshold	% Diff to Threshold (excluding meter cost)	% Diff to Threshold (including meter cost)	ACTS	Meter Cost	ACTS + Meter Costs	Adjusted ACTS	MC	Total	ACTS	Meter Cost	ACTS + Meter Costs
TMS	water	measured or assessed	28.24	Y	48.12	41%	70%	£35.29	£8.39	£43.68	£39.73	£8.39	£48.12	£39.73	£8.39	£48.12
TMS	water	unmeasured	27.65	N	39.73	44%	74%	£34.57	£0.00	£34.57	£39.73	£0.00	£39.73	£39.73	£0.00	£39.73

The glide path is too slow to reach the ACTS

Based on the current glide path proposed by Ofwat, the table below highlights those tariffs that, by Year 2 of the REC, still remain below all but one retailer's actual average cost to serve.

Wholesaler	service	service	FY23/24			FY24/25			FY25/26		
			ACTS	Meter Cost	Total	ACTS	MC	Total	ACTS	MC	Total
ANH	water	unmeasured	20.17	0.00	20.17	25.21	0.00	25.21	39.73	0.00	39.73
ANH	water	unmeasured	19.53	0.00	19.53	24.41	0.00	24.41	39.73	0.00	39.73
ANH	waste	unmeasured	20.91	0.00	20.91	26.14	0.00	26.14	39.73	0.00	39.73
ANH	waste	unmeasured	22.38	0.00	22.38	27.98	0.00	27.98	39.73	0.00	39.73
BRL	water	unmeasured	11.64	0.00	11.64	14.55	0.00	14.55	39.73	0.00	39.73
PRT	water	measured or assessed	22.29	8.39	30.68	27.86	8.39	36.25	39.73	8.39	48.12
SRN	water	unmeasured	18.93	0.00	18.93	23.66	0.00	23.66	39.73	0.00	39.73
SWB	water	unmeasured	20.21	0.00	20.21	25.26	0.00	25.26	39.73	0.00	39.73
SWB	water	measured or assessed	15.54	8.39	23.94	19.43	8.39	27.82	39.73	8.39	48.12

To eliminate the discrepancies between CTS for metered and unmetered customers as well as hastening the pace to reach the allowed ACTS, the cap/collar should be based on ACTS excluding the meter read allowance. The impact for the customer would be negligible. For example, based on the below and wholesale costs of £300:

	FY23/24	FY24/25	FY25/26
Cap/Collar based on ACTS +MC	£351.64	£356.27	£362.625
YoY increase in bill	4%	1%	2%
Cap/Collar based on ACTS only	£360.45	£362.63	£362.63
YoY increase in bill	6.7%	0.6%	0.0%
Difference	£8.80	£6.36	£0.00

The glide path should apply to ACTS and Net Margin together

Further, by treating the 25% cap and collar calculations separately for ACTS and Net Margin, the glide path methodology fails to take account of the combined impact on customers' bills, such that in scenarios where margins are falling (particularly in FY24/25 when the 0.49% bad debt provision falls away), the overall increase to bills in FY24/25 reduces, leaving a much larger catch-up required in FY25/26. This is illustrated in the table below. By looking at the combined impact a faster acceleration on to the ACTS could be achieved without adversely impacting the customer.

Wholesaler	service	service	FY24	FY24 Net	FY25	FY25 Net	FY26	FY26 Net	Base line charge (£300 w/s cost)	FY24 Charge (£300 w/s cost)	FY25 Charge (£300 w/s cost)	FY26 Charge (£300 w/s cost)	Increase to Customer		Increase to Customer		Increase to Customer	
			ACTS + Meter Costs	Margin	ACTS + Meter Costs	Margin	ACTS + Meter Costs	Margin					Bill FY24	Diff %	Bill FY24	Diff %	Bill FY24	Diff %
ANH	water	unmeasured	20.17	2.42%	25.21	2.00%	£39.73	2.00%	321.082	334.96	338.76	353.89	£13.88	4%	£3.80	1%	£15.12	5%
ANH	water	unmeasured	19.53	2.49%	24.41	2.00%	£39.73	2.00%	322.261	334.55	337.93	353.89	£12.29	4%	£3.38	1%	£15.96	5%
ANH	waste	unmeasured	20.91	1.89%	26.14	2.00%	£39.73	2.00%	320.318	333.90	339.73	353.89	£13.58	4%	£5.82	2%	£14.16	4%
ANH	waste	unmeasured	22.38	1.95%	27.98	2.00%	£39.73	2.00%	321.669	335.65	341.64	353.89	£13.98	4%	£5.99	2%	£12.24	4%
BRL	water	unmeasured	11.64	3.54%	14.55	2.66%	£39.73	2.00%	322.434	329.92	329.91	353.89	£7.49	2%	-£0.01	0%	£23.97	7%
PRT	water	unmeasured	25.49	2.49%	31.86	2.00%	£39.73	2.00%	327.564	340.79	345.69	353.89	£13.23	4%	£4.90	1%	£8.20	3%
PRT	water	measured or assessed	30.68	2.49%	36.25	2.00%	£48.12	2.00%	332.523	346.22	350.26	362.63	£13.70	4%	£4.04	1%	£12.36	4%
SRN	water	unmeasured	18.93	2.49%	23.66	2.00%	£39.73	2.00%	322.132	333.92	337.15	353.89	£11.79	4%	£3.23	1%	£16.74	5%
SRN	waste	unmeasured	23.32	2.49%	29.15	2.00%	£39.73	2.00%	324.993	338.52	342.86	353.89	£13.53	4%	£4.35	1%	£11.02	3%
SWB	water	unmeasured	20.21	2.49%	25.26	2.00%	£39.73	2.00%	322.196	335.27	338.82	353.89	£13.07	4%	£3.55	1%	£15.07	5%
SWB	waste	unmeasured	22.62	2.49%	28.28	2.00%	£39.73	2.00%	324.158	337.79	341.95	353.89	£13.63	4%	£4.17	1%	£11.93	4%
SWB	water	measured or assessed	23.94	2.84%	27.82	2.13%	£48.12	2.00%	329.460	340.40	341.93	362.63	£10.94	3%	£1.53	0%	£20.69	6%
SWB	waste	measured or assessed	23.19	2.55%	28.99	2.00%	£39.73	2.00%	327.529	338.58	342.70	353.89	£11.05	3%	£4.11	1%	£11.19	3%
SWB	water	unmeasured	22.58	2.49%	28.23	2.00%	£39.73	2.00%	323.959	337.74	341.90	353.89	£13.78	4%	£4.16	1%	£11.98	4%
SWB	water	measured or assessed	32.80	2.75%	38.90	2.06%	£48.12	2.00%	336.368	349.39	353.25	362.63	£13.02	4%	£3.86	1%	£9.38	3%
TMS	water	measured or assessed	35.29	2.65%	42.02	2.00%	£48.12	2.00%	337.969	351.65	356.27	362.63	£13.68	4%	£4.62	1%	£6.36	2%
WSX	waste	unmeasured	23.36	2.45%	29.20	2.00%	£39.73	2.00%	323.772	338.43	342.92	353.89	£14.66	5%	£4.49	1%	£10.97	3%
WSX	water	measured or assessed	34.68	2.97%	41.25	2.22%	£48.12	2.00%	338.927	352.16	356.30	362.63	£13.24	4%	£4.14	1%	£6.32	2%
WSX	waste	measured or assessed	25.92	3.05%	32.40	2.29%	£39.73	2.00%	332.060	343.25	347.28	353.89	£11.19	3%	£4.04	1%	£6.60	2%

Ofwat's proposals impose more customer bill shock than would a removal of the glide path

Whereas Ofwat has applied the 25% cap/collar to both ACTS + Meter Cost for the FY24 price increase, for FY25 price increases the 25% cap/collar has been applied only to ACTS. The impact is to

increase customer bills by less than 25% in Year 2 of the glide path and in many cases to result in a larger increase for Year 3 - e.g. PRT 18% in Year 2 / 33% in Year 3; SWB 16% in Year 2 / 73% in Year 3. If the aim is to keep the bill increase for customers less than 25% per annum in the first 2 years, the calculation for FY25 should be amended to the same basis as that used for FY24.

Prices capped at less than 25% for FY25 based on Ofwat Yr2 Calculation of Glide Path

Wholesaler	service	service	FY23/24	Measured Water	Applicable Threshold	% Diff (relevant 25% threshold)	Within relevant 25% threshold?	Total Bill increase for customer (ACTs + MC)			Adjusted ACTs	MC	Total	ACTs increase for customer	Total Bill increase for customer (ACTs + MC)	
								ACTs	Meter Cost	ACTs + Meter Costs						
BRL	water	measured or assessed	29.7684211	Y	48.12	62%	>25%	28.82	8.39	37.21	25%	36.03	8.39	44.42	25%	19%
PRT	water	measured or assessed	24.5421607	Y	48.12	96%	>25%	22.29	8.39	30.68	25%	27.86	8.39	36.25	25%	18%
SRN	water	measured or assessed	28.694072	Y	48.12	68%	>25%	27.48	8.39	35.87	25%	34.35	8.39	42.74	25%	19%
SWB	water	measured or assessed	19.1480332	Y	48.12	151%	>25%	15.54	8.39	23.94	25%	19.43	8.39	27.82	25%	16%
SWB	water	measured or assessed	26.2432133	Y	48.12	83%	>25%	24.41	8.39	32.80	25%	30.51	8.39	38.90	25%	19%
TMS	water	measured or assessed	28.2352355	Y	48.12	70%	>25%	26.90	8.39	35.29	25%	33.63	8.39	42.02	25%	19%
WSX	water	measured or assessed	27.7428255	Y	48.12	73%	>25%	26.29	8.39	34.68	25%	32.86	8.39	41.25	25%	19%

Conclusion on the glide path

- Given the current proposals for ACTs and the timing issues described above, the glide path is unnecessary and potentially more damaging to customers than no glide path.
- If a glide path can be justified judged against the effects of an alternative measure of ACTs, it should be calculated excluding meter reading costs and combining ACTs and Net Margin together.

Consultation Question 11 – Taking account of the proposals set out in this document for revisions to REC price caps for Customer Groups One and Two, do you agree with our proposed amendments to the Retail Exit Code?

No.

See our response to Consultation Question 9.

Consultation Question 12 – Do you agree that Ofwat should require that Retailers submit by June each year, assurance that they are complying with the REC price protections, and that such assurance is compiled by a suitably qualified third party?

We accept this in principle, given that some retailers took different approaches to the application of the current price caps. It must, however, be clear against what criteria retailers are to be audited. We understood from its 20 September webinar that Ofwat would assess compliance against outturn – i.e. whether the tariffs set in the preceding year resulted in customer prices that were within the caps; as distinct from whether the tariffs were set in such a way as to achieve compliance.

Given that outturn customer prices can be influenced by, notably, consumption (and in the absence of any correction factor for over- or under-recovery) it will not be possible to assure full compliance in advance. Although Ofwat has responded that retailers will know the great majority of their price inputs in advance (i.e. wholesaler charges), it is not satisfactory to leave open scope for retailers potentially to be found non-compliant and foot-faulted due to exogenous factors.

One option would be for Ofwat to allow tariffs to be corrected year on year for under- and over-recovery. Another would be to state a set of common assumptions on consumption and inflation on which retailers may expressly rely in setting tariffs. A third less obtrusive option exists. It is already Ofwat's practice to seek confirmation that tariffs set each year are consistent with the REC price controls. If retailers were to include in this return the basis on which they assessed compliance it would enable Ofwat more readily to conduct both pre- and post-year compliance checks.

Castle Water Limited

21 October 2022

Appendix

MC1 Data

The data below shows an analysis of MC1 transaction numbers between September 2021 and March 2022.

MC1 submissions totalled 15,864, with Castle raising 26% of all submissions for both wholesalers and retailers in the market (4,258 submissions). By comparison, Thames Water has raised 255 MC1s.

This analysis raises two important points in respect of the REC:

- 1) Given that the maintenance of the network assets is the responsibility of the wholesaler, the retailer having to raise a disproportionate volume of MC1s means that in effect the wholesaler is [X] delegating to the retailer the diagnostic and correction activities the wholesaler ought to be undertaking.
- 2) The volume of MC1s in each wholesaler region is skewed heavily towards the areas where the retailer has acquired a legacy customer base from the former incumbent.

MC1 submissions Sept '21 - Mar '22	
Total C1 submissions	15864
CW submissions	4258
CW submissions to TW	3256
CW received from all Wholesalers	213
CW received from TW	195
C1s received by all Retailers	864
C1s received by all Wholesalers	15000

Retailer	# MC1.Rs received	% of Total
Castle Water	9,929	62%
Business Stream	1,341	8%
SES	359	2%
Water 2 Business	216	1%
Water Plus	2,222	14%
Wave	743	5%
Everflow	447	3%
Pennon	886	5%
	16,143	100%

AFFINITY-W (excluding LUR Project work)						
Retailer Nam	Retailer Org id	Retailer Type	# of SPIDs	# of Meters	# MC1.Rs received	
Pennon Water S	SOUTHWEST-R	Associated Retailer	421	406		22
ADSM	ADSM-R	Unassociated Retailer	66	64		3
Business Stream	BUSSTREAM-R	Unassociated Retailer	2,517	2,330		64
Clear Business	CLEARBUS-R	Unassociated Retailer	413	345		9
SES Business Wa	SUTTON-R	Associated Retailer	790	752		15
First Business W	FIRSTBW-R	Unassociated Retailer	403	375		5
Water 2 Busines	WATER2BUS-R	Associated Retailer	1,199	1,147		14
Water Plus	SEVERN-R	Associated Retailer	1,604	1,493		18
Wave (Anglian)	WAVE-R	Associated Retailer	2,065	1,925		22
Castle Water	CASTLE-R	Unassociated Retailer	58,925	50,600		426
Everflow	EVERFLOW-R	Unassociated Retailer	2,949	2,620		22
Average			71,352	62057		620
UNITED-W						
Retailer Nam	Retailer Org id	Retailer Type	# of SPIDs	# of Meters	# MC1.Rs received	
Pennon Water S	SOUTHWEST-R	Associated Retailer	1,504	759		34
ADSM	ADSM-R	Unassociated Retailer	485	274		12
SES Business Wa	SUTTON-R	Associated Retailer	2,502	1,091		41
Business Stream	BUSSTREAM-R	Unassociated Retailer	8,264	3,692		125
Clear Business	CLEARBUS-R	Unassociated Retailer	4,280	1,893		31
Castle Water	CASTLE-R	Unassociated Retailer	3,090	1,294		16
Water 2 Busines	WATER2BUS-R	Associated Retailer	4,926	2,373		23
Wave (Anglian)	WAVE-R	Associated Retailer	8,158	3,981		17
Everflow	EVERFLOW-R	Unassociated Retailer	16,534	7,790		30
Water Plus	UNITED-R	Associated Retailer	355,901	144,691		525
First Business W	FIRSTBW-R	Unassociated Retailer	718	359		1
Average			406,362	168,197		855
ANGLIAN-W						
Retailer Nam	Retailer Org id	Retailer Type	# of SPIDs	# of Meters	# MC1.Rs received	
ADSM	ADSM-R	Unassociated Retailer	211	135		5
Business Stream	BUSSTREAM-R	Unassociated Retailer	5,429	2,420		87
SES Business Wa	SUTTON-R	Associated Retailer	5,432	2,819		94
Pennon Water S	SOUTHWEST-R	Associated Retailer	1,916	410		13
Castle Water	CASTLE-R	Unassociated Retailer	3,888	1,542		27
Clear Business	CLEARBUS-R	Unassociated Retailer	1,291	553		6
First Business W	FIRSTBW-R	Unassociated Retailer	822	427		4
Water Plus	SEVERN-R	Associated Retailer	5,838	2,923		20
Water 2 Busines	WATER2BUS-R	Associated Retailer	4,108	1,840		11
Everflow	EVERFLOW-R	Unassociated Retailer	10,157	4,989		24
Wave (Anglian)	WAVE-R	Associated Retailer	214,978	108,660		462
Average			254070	126718		753

SEVERN-W						
Retailer Nam	Retailer Org id	Retailer Type	# of SPIDs	# of Meters	# MC1.Rs received	
Waterscan	WATERSCAN-R	Unassociated Retailer	11	9		1
ADSM	ADSM-R	Unassociated Retailer	319	159		12
Pennon Water S	SOUTHWEST-R	Associated Retailer	7,413	844		40
Business Stream	BUSSTREAM-R	Unassociated Retailer	8,156	3,736		161
First Business W	FIRSTBW-R	Unassociated Retailer	891	423		14
SES Business Wa	SUTTON-R	Associated Retailer	1,091	505		13
Wave (Anglian)	WAVE-R	Associated Retailer	4,392	2,005		41
Castle Water	CASTLE-R	Unassociated Retailer	6,225	2,946		56
Water 2 Busines	WATER2BUS-R	Associated Retailer	6,263	2,856		53
Everflow	EVERFLOW-R	Unassociated Retailer	17,967	8,499		136
Clear Business	CLEARBUS-R	Unassociated Retailer	2,222	962		11
Water Plus	SEVERN-R	Associated Retailer	349,142	163,653		1549
Average			404,092	186,597		2,087
SOUTHWEST-W						
Retailer Nam	Retailer Org id	Retailer Type	# of SPIDs	# of Meters	# MC1.Rs received	
ADSM	ADSM-R	Unassociated Retailer	71	40		3
Business Stream	BUSSTREAM-R	Unassociated Retailer	2398	1405		53
First Business W	FIRSTBW-R	Unassociated Retailer	166	99		3
SES Business Wa	SUTTON-R	Associated Retailer	1338	924		20
Clear Business	CLEARBUS-R	Unassociated Retailer	382	218		3
Pennon Water S	SOUTHWEST-R	Associated Retailer	106,607	68,647		680
Wave (Anglian)	WAVE-R	Associated Retailer	1333	829		7
Water 2 Busines	WATER2BUS-R	Associated Retailer	1862	1149		7
Everflow	EVERFLOW-R	Unassociated Retailer	3396	1967		11
Castle Water	CASTLE-R	Unassociated Retailer	1052	675		3
Water Plus	SEVERN-R	Associated Retailer	2623	1711		5
Average			121,228	77,664		795
THAMES-W						
Retailer Nam	Retailer Org id	Retailer Type	# of SPIDs	# of Meters	# MC1.Rs received	
SES Business Wa	SUTTON-R	Associated Retailer	12730	3873		138
First Business W	FIRSTBW-R	Unassociated Retailer	2505	1168		39
Pennon Water S	SOUTHWEST-R	Associated Retailer	2216	924		27
Business Stream	BUSSTREAM-R	Unassociated Retailer	12123	4859		127
Castle Water	CASTLE-R	Unassociated Retailer	404,356	150,396		3256
Wave (Anglian)	WAVE-R	Associated Retailer	16009	7134		142
Clear Business	CLEARBUS-R	Unassociated Retailer	4931	1914		35
ADSM	ADSM-R	Unassociated Retailer	837	556		10
Everflow	EVERFLOW-R	Unassociated Retailer	18728	7437		115
Water 2 Busines	WATER2BUS-R	Associated Retailer	8106	3535		51
Water Plus	SEVERN-R	Associated Retailer	12414	5086		40
Average			494,955	186,882		3,980

YORKSHIRE-W						
Retailer Nam	Retailer Org id	Retailer Type	# of SPIDs	# of Meters	# MC1.Rs received	
Pennon Water S	SOUTHWEST-R	Associated Retailer	835	449		16
Clear Business	CLEARBUS-R	Unassociated Retailer	1613	702		21
SES Business Wa	SUTTON-R	Associated Retailer	678	374		7
The Water Retai	TWRC-R	Unassociated Retailer	87	81		1
Water Plus	SEVERN-R	Associated Retailer	4981	2457		17
Wave (Anglian)	WAVE-R	Associated Retailer	3740	1950		12
Water 2 Busines	WATER2BUS-R	Associated Retailer	3545	1766		10
Everflow	EVERFLOW-R	Unassociated Retailer	10228	4850		19
Castle Water	CASTLE-R	Unassociated Retailer	2249	1090		3
First Business W	FIRSTBW-R	Unassociated Retailer	831	433		1
Business Stream	BUSSTREAM-R, YORKSHIRE-R	Unassociated Retailer	228,800	111440		246
Average			257,587	125,592		353
SOUTHEAST-W (Excluding LUR Project Work)						
Retailer Nam	Retailer Org id	Retailer Type	# of SPIDs	# of Meters	# MC1.Rs received	
Pennon Water S	SOUTHWEST-R	Associated Retailer	300	300		16
Clear Business	CLEARBUS-R	Unassociated Retailer	299	289		14
Business Stream	BUSSTREAM-R	Unassociated Retailer	5404	5256		207
First Business W	FIRSTBW-R	Unassociated Retailer	286	296		8
ADSM	ADSM-R	Unassociated Retailer	182	191		5
Water 2 Busines	WATER2BUS-R	Associated Retailer	836	859		22
SES Business Wa	SUTTON-R	Associated Retailer	457	445		8
Everflow	EVERFLOW-R	Unassociated Retailer	2988	2917		46
Water Plus	SEVERN-R	Associated Retailer	1044	1031		15
Wave (Anglian)	WAVE-R	Associated Retailer	765	764		9
Castle Water	CASTLE-R	Unassociated Retailer	38628	36593		358
Average			51,189	48,941		708
SOUTHEAST-W (Including LUR Project Work)						
Retailer Nam	Retailer Org id	Retailer Type	# of SPIDs	# of Meters	# MC1.Rs received	
Castle Water	CASTLE-R	Unassociated Retailer	38628	36593		4358
Pennon Water S	SOUTHWEST-R	Associated Retailer	300	300		16
Clear Business	CLEARBUS-R	Unassociated Retailer	299	289		14
Business Stream	BUSSTREAM-R	Unassociated Retailer	5404	5256		207
First Business W	FIRSTBW-R	Unassociated Retailer	286	296		8
ADSM	ADSM-R	Unassociated Retailer	182	191		5
Water 2 Busines	WATER2BUS-R	Associated Retailer	836	859		22
SES Business Wa	SUTTON-R	Associated Retailer	457	445		8
Everflow	EVERFLOW-R	Unassociated Retailer	2988	2917		46
Water Plus	SEVERN-R	Associated Retailer	1044	1031		15
Wave (Anglian)	WAVE-R	Associated Retailer	765	764		9
Average			51,189	48,941		4,708
AFFINITY-W (including LUR Project work)						
Retailer Nam	Retailer Org id	Retailer Type	# of SPIDs	# of Meters	# MC1.Rs received	
Pennon Water S	SOUTHWEST-R	Associated Retailer	421	406		22
ADSM	ADSM-R	Unassociated Retailer	66	64		3
Castle Water	CASTLE-R	Unassociated Retailer	58,925	50,600		1426
Business Stream	BUSSTREAM-R	Unassociated Retailer	2,517	2,330		64
Clear Business	CLEARBUS-R	Unassociated Retailer	413	345		9
SES Business Wa	SUTTON-R	Associated Retailer	790	752		15
First Business W	FIRSTBW-R	Unassociated Retailer	403	375		5
Water 2 Busines	WATER2BUS-R	Associated Retailer	1,199	1,147		14
Water Plus	SEVERN-R	Associated Retailer	1,604	1,493		18
Wave (Anglian)	WAVE-R	Associated Retailer	2,065	1,925		22
Everflow	EVERFLOW-R	Unassociated Retailer	2,949	2,620		22
Average			71,352	62,057		1,620