

## REC22 decision – Ofwat's responses to queries

This document sets out stakeholders' queries and Ofwat's responses to points regarding Ofwat's [REC22 decision](#) that was published on 15 December 2022. These queries relate to points made in the REC22 decision and the accompanying documents.

### Stakeholder queries and Ofwat's response

Date of query	Stakeholder query	Ofwat's response
16/12/2022	The amended REC (Annex B of the REC22 decision) states that Retailers must use best endeavours for customers taking more than one unique service yet the calculation requests that the retail allowance is calculated for customers taking one or more unique services. Is the intention that the £60 total retail element should not be exceeded for all customers irrespective of the number of unique services they have or is it just for customers having 2 or more unique services.	The supplementary requirement set in out Annex B of our decision that limits the increase in the total retail charge to £60 applies to each <u>customer of a Retailer, irrespective of the number of unique services that that Retailer's customer takes.</u>
16/12/2022	For Retailers that are seeing unique service allowed cost to serves (acts) in 2023-24 increase by £30 from the current REC (including inflation) and with an increase in net margin, all customers taking 2 or more unique services will by default have a Retail element bill that has to be greater than £60 from the current year. In reality therefore the Table 1 in Annex B cannot be used and either the acts used has to be lower than the published acts or the net margin has to be 0%. Is this what Ofwat had intended? Or should the £60 limit be more like £65 to allow for a margin?	<p>The supplementary rule requires Retailers use best endeavours in setting tariffs in charging year 2023-24 such that the retail element of charges for a customer increase by no more than £60. That is, the change in the sum of all retail components of a customer's bill (allowed cost to serve, meter reading cost allowance (where the customer takes a measured water service), allowed net margin and bad debt allowance) should not increase by more than £60.</p> <p>As noted in §7.1 of our decision document, the glide path limits the change in the allowed cost to serve and the meter reading component (where relevant) elements in</p>

		<p>charging year 2023-24 to £30, while moving directly to the allowed Net Margin of 2%.</p> <p>We acknowledge that for some customers who take two unique services from the same Retailer, the £30 step change means the total increase in the sum of the cost to serve allowance and meter reading allowance could result in an increase in the retail element of a customer's bill of £60 by itself, with inclusion of the allowed Net Margin as well as the customer bad debt allowance meaning the change in retail charge may be above £60. In such circumstances, we expect the Retailer to use best endeavours to set tariffs for the customer that limit the change in 2023-24 to the retail element for the customer to £60, notwithstanding the allowances set out in table 1 in Annex B.</p>
<p>09/01/2023</p>	<p>In Ofwat's September REC proposal documents it is clear that there should be no recharging for meter reading between water and sewerage Retailers (extract below from page 31 of the main document and page 24 of Annex B:</p> <p style="padding-left: 40px;">"We would expect meter readings made by a Retailer serving a customer taking a clean water service to be made available at no extra charge to a Retailer providing wastewater services to the same customer."</p> <p>The final decision document is clear that the allowance for meter reading costs is applied to the measured water service and lies with the water retailer but does not repeat the wording above. Furthermore, Ofwat talks about cross-charging as follows:</p>	<p>We note that Section 4.8 of the Wholesaler Retail Code (WRC) Schedule 1 Part 2 Business Terms, and section 205 of the Water Industry Act, set out that Undertakers or Retailers can agree to share the costs and responsibilities of meter reading, making their own commercial arrangement. <u>However, we note that this is a completely optional provision.</u></p> <p>Given this is optional, Retailers can make use the provision if they agree commercial arrangements, however, the Retailer providing a metered water service will be allocated the REC meter reading cost allowance. For the avoidance of doubt, we anticipate that these provisions will not be used in the circumstances where premises are served by different water and wastewater</p>

	<p>" We do not agree with MOSL's point that the meter read allowance being applied to water services creates an inconsistency with the market codes which may need to be resolved by way of a code modification. Section 4.8 of the Business Terms and Section 205 of the Water Industry Act merely provides that Retailers are able to agree relevant commercial solutions between themselves to share the costs associated with meter readings. These provisions are not prescriptive and do not mandate, or prevent cross charging from one Retailer to another in respect of meter readings obtained by one and used by another. Retailers will therefore have considerable flexibility to agree relevant commercial solutions between themselves, which we anticipate will take into account that the water Retailer only has received the allowance from the REC. Our decision applies the meter read cost allowance to the measured water service, which is consistent with Section 3.5.4 of Code Subsidiary Document (CSD) 0202 which places the obligation on the water Retailer to obtain meter readings where there is a different Retailer for sewerage services. Given that Section 4.8 of the Business Terms and Section 205 of the Water Industry Act are not prescriptive we do not see a conflict with the provisions in the market codes."</p> <p>Given that some water Retailers have interpreted the code provisions as a mandate to cross-charge, can Ofwat confirm that the recharging of meter</p>	<p>Retailers given that it is the former who bears the primary responsibility to take meter readings in the WRC and who is allocated the meter reading allowance in the REC.</p> <p>Furthermore, we note that as this provision is set out in legislation, this cannot be amended through a Code Change to the WRC.</p>
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	reading costs to sewerage retailers is due to stop 31st March 2023?	
12/01/2023	Please could you confirm that it's acceptable to assign unmetered customers to their REC group based on the wholesale tariff? If not, could you confirm the correct method for assigning groups to unmetered customers?	The Retail Exit Code defines, for the purposes of specifying price protections for such customers, Customer Group One. The definition of Customer Group One includes Eligible Premises to which a Licensee supplies less than 0.5 megalitres of water or wastewater services a year, or is assessed to be so supplied, or for which the consumption is unmeasured. Accordingly, where a customer is unmetered but where the customer's consumption is otherwise assessed as being below the 0.5 megalitre threshold, such a customer – all other things equal – is defined as a Group One Customer. Where a customer is unmetered and unassessed (eg. the charge is based on rateable value), such a customer – all other things equal – is defined as a Group One customer.