

Severn Trent Plc

Severn Trent Centre
PO Box 5309
Coventry
CV3 9FH

Tel 02477 715000
Fax 02477 715871

26 February 2016

Dear Ofwat,

Application process for water and sewerage licences – retail market opening for non-household customers: a consultation

We welcome the opportunity to comment on the draft application process and documentation for the new water and sewerage supply licences (WSSL).

We are supportive of the development of a retail market where customers are actively engaged and have a choice of suitably qualified licensees. Overall we wish to see a WSSL process that:

- finds a balance between ensuring the competency of licensees without creating an unduly administrative and burdensome process;
- is constructively and pragmatically operated with sufficient opportunity to remedy or address issues as they arise through the process. This will be particularly important in the run-up to market opening and early stages of the market as the new processes and guidance are implemented and effectively 'tested' for the first time; and
- aligns seamlessly with – and does not replicate - other critical interdependent processes required for market opening, particularly the MOSL Market Entry Assurance process.

Our comments principally relate to the above points and are set out below.

1. Reducing replication. We recognise that there are substantial similarities between the existing WSL and WSSL process and that the 'burden of proof' is similar. We would encourage Ofwat to consider, however, whether this new process would be an opportunity to review whether some of the supporting evidence required to be submitted with a WSSL could be streamlined given the extent of the certificate of adequacy that applicants are required to submit.

2. Reducing the scope for ambiguity. We agree with the need for the DWI, EA and NRW to assess technical competency as part of the application process, but consider that there is a need for greater clarity regarding the process that will be undertaken, the tests to be applied

and the evidence required to support the process. Reducing the scope for ambiguity will help to ensure a more efficient process and lessen the scope for delays or further information requests. The time pressures are particularly critical in advance of market opening where there is limited opportunity to successfully complete the WSSL and market entry assurance processes. It will also be important that the tests applied are proportionate to the role of a retailer i.e. we would not expect a retail applicant to need to demonstrate the same level of technical competency as a wholesaler.

We would welcome further clarity about the requirement to work constructively with the above regulators and CCWater. Whilst we do not object to these requirements in principle, further clarity about what may be expected, and the consequences of not adhering, would allow applicants to better target their applications.

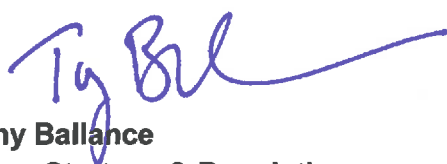
3. Confidentiality. Given the heightened commercial focus in a new market, to have confidence in the process, applicants will require assurance that submitted information will be treated confidentially. This requirement needs to be extended to information that is shared with the EA, DWI and NRW. It would help to make this explicit in the guidance/process.

4. Timing and interdependencies. In some instances, WSSL applicants may need to begin the process early in April 2016 (for example, if they wished to become an acquiring licensee under the retail exit provisions in advance of market opening). For practical and commercial reasons, applicants may not have in place all employees and resources to serve a larger customer base *at the point of application* (i.e. a full year in advance). In these and similar circumstances, we would expect that there may need to be a degree of pragmatism around how Ofwat assesses some requirements at the initial point of application and as proposed in Ofwat's June 2015 *licensing and policy issues* consultation, the applicant would provide an updated certificate of adequacy prior to there being a material change in customers.

5. Alignment with market entry assurance certification. Given the importance of the timing and coordination of licence applications with the MOSL market assurance process – particularly in advance of 1 April 2017 we would welcome Ofwat and MOSL taking potential applicants through a detailed 'step through' of the timing and process in different scenarios. This could be achieved using MOSL's newly established market entry assurance SIG.

We would be pleased to provide more information about any point made in our response.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Tony Ballance".

Dr Tony Ballance
Director, Strategy & Regulation