Competition
are you ready?

Quick reference guides and checklists for:

Retailers

Wholesalers

Currently Integrated Businesses

About Ascendancy Water

At Ascendancy we believe that the best way to develop a competitive advantage is to be totally single minded about what you are passionate about. For us that is ensuring that our clients are able to access the knowledge and resources required to operate in the exciting new UK water market. That is why we only do competitive water consulting, services and software.

Consultancy

Our team of industry experts will help you whether you are new to the water industry or just new to competition. By focusing on understanding your goals we help you to develop processes that maximise your competitive advantage.

Services

Our services team can support your business by supporting your market and customer obligations. This ensures that you can operate effectively without needing the large scale investment to develop these services in house. Keeping you lean and competitive.

Software

Our cloud based *Ascendancy Edge* suite of software solutions ensures that you have all the technical tools you need to manage your business, including data and settlement reconciliation, meter reading, billing and wholesaler tracking.

Additional Resources

More information and links to resources can be found at:

www.ascendancy-water.co.uk

or call: 0845 838 1979

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A quick reference guide and checklist for

Retailers

For most English water retailers the concept of selling core services through retailers is new. The Scottish market has operated since 2008, so there are a number of companies with a head start in key areas of:

- Retail proposition
- Customer retention
- Market systems & data integration
- Settlement management
- Market responsibility adherence

Your 3 strategic decisions:

1

The first strategic decision is whether to operate in the new English retail market at all.

2

The second key strategic decision is to chose a retail operational model. The Scottish market has highlighted four key models:

- Incumbent mass market
- Low cost retail only
- Specialist / added value
- Rounded and targeted

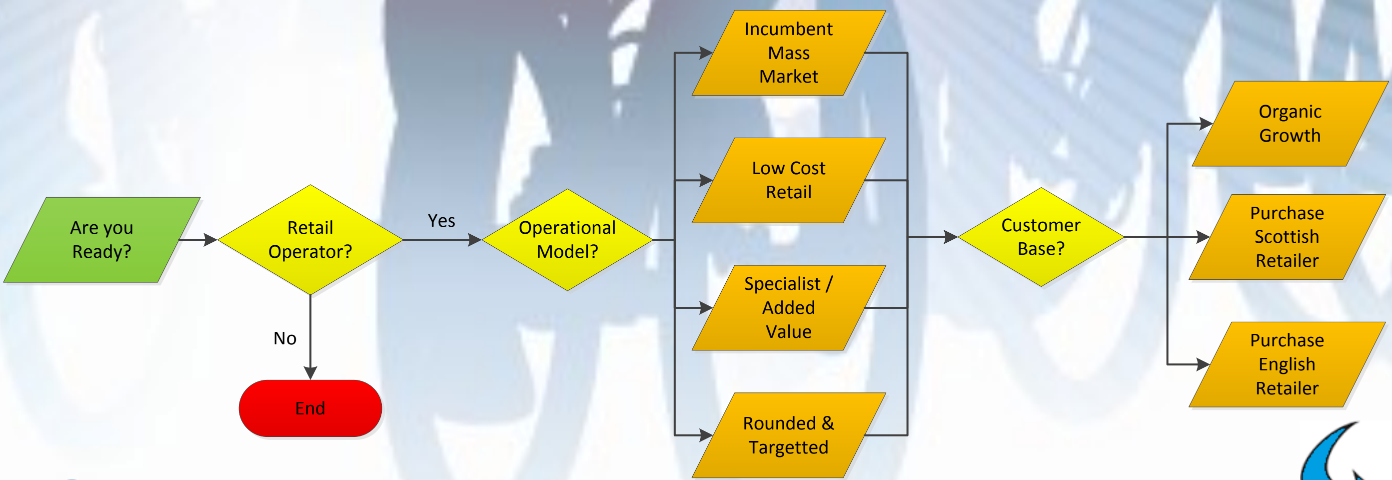
The model selected will have a major impact on all other decision making and is likely to be the biggest single driver for the success of the business.

3

This leads onto the third key decision, which is how to acquire and grow a customer base.

There are a number of options here:

- Organic growth
- Buy a Scottish retailer
- Buy an English retailer that does not wish to operate a retail business



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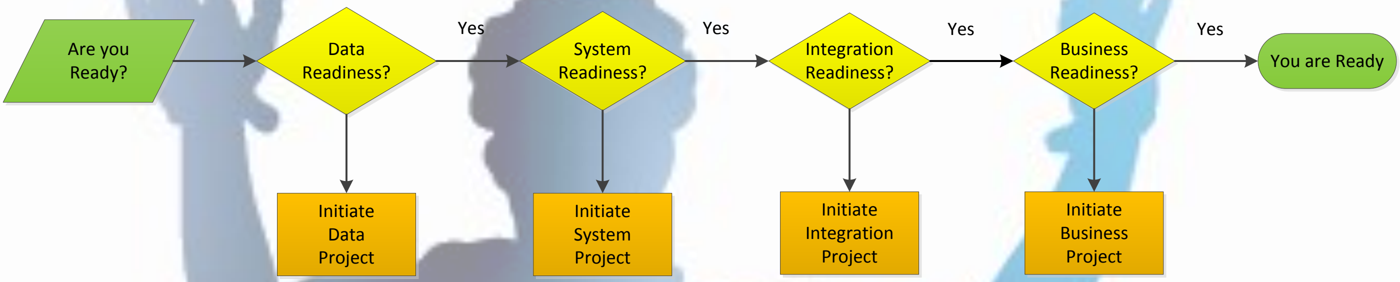
When the strategic decision making is complete there is still much to do, as outlined in the Open Water MAP 2 document, and summarised in the following flowchart.



Services Provided
Customer Name & Address
Bill Payer Name & Address
Type of Meter
Payment Record

Customer Pricing
In-Area Billing
Out-of-Area Billing
Multiple Wholesalers
Settlement Reconciliation
Customer Portal
CRM System
Meter Read System
Finance / Accounting

Market Data Interface
Incoming Transactions
Outgoing Transactions
Meter Reads
Finance System Interface

Compliance / Level Playing Field
Staff roles & responsibilities
Retail Tariff Management
Wholesaler Management / Tracking

The management of change to allow effective market operation will be specific to each organisation. However, the relative importance of each section of the change programme is not always clear.

For example, Settlement and Reconciliation, although apparently simple, has caused significant issues for retailers in Scotland. As has understanding and correcting the data that retailers are responsible for.

The good news here is that a strong alignment between Scottish and English codes provides the ability to learn from the experience (and mistakes) of Scotland.

A big difference between Scotland and England is the large number of wholesalers that each retailer will work with. A focus on robust systems for tracking operation processes will be essential for ensuring that the wholesaler performance can be effectively managed so that poor wholesaler performance does not impact on a retailer's reputation.

Also, with the likelihood of smaller retail margins than are available in Scotland, it is important to ensure that processes and systems are as efficient and effective as possible.

Finally, the major data issues experienced in Scotland caused by a lack of integration shows that full integration with market systems is essential for success.

Checklist

Strategic decisions:

- [ ] Customer proposition
- [ ] Acquisition of exiting retailers
- [ ] Operational management

Key options:

- [ ] Insource operations
- [ ] Outsource operations

Key priorities:

- [ ] Developing a proposition
- [ ] Retaining customers (for incumbents)
- [ ] Accessing and understanding market data
- [ ] Managing settlement
- [ ] Adhering to market responsibilities

Other things to consider:

- [ ] Gaining or retaining a license
- [ ] Interacting with multiple wholesalers
- [ ] Integrated systems
- [ ] Business Processes

Additional Resources

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A quick reference guide and checklist for

Wholesalers

What is different about competition?

Many of the fundamental operations of wholesalers will be impacted by competition including:

- The responsibility for billing non-domestic customers will be removed, instead the wholesaler will bill a retailer.
- Business processes will need to be shortened to accommodate retail processes within given SLAs.
- A retail liaison / interface team will need to be established.
- New IT systems will be required to support the wholesale business and interfaces to Central Systems.
- The business risk profile will be radically changed to consider the credit risk exposure of retail LPs and risk of performance penalties.
- Governance, Compliance and Cash Management processes will need to be redesigned.
- Staff training and cultural changes will need to be implemented.

What we can learn from Scotland

Customer switching highlights data issues: Even where data quality is good, the processes involved in tendering and switching will inevitably highlight data issues, as it has in Scotland.

Data issues are harder to fix after market opening: Where there is a single, wholly integrated wholesaler / retailer, there is only one relationship to manage between customer and water company. After market opening there will be involvement of a customer, two retailers and a wholesaler, each with different priorities and opinions. This along with the increased distance between wholesaler and customer can cause delays and disagreements.

The requirement for a Wholesale Service Desk: With an estimated 40-50 retailers in the market by the end of 2017, wholesalers will need to ensure effective processes for efficiently managing retailers operational requests. Key considerations will be flexibility of scale, dependant on level of switching and industry knowledge of new entry retailers.

Protecting core revenues: Current market design results in key data items being owned by retailers. Most significantly retailers will be able to switch occupancy / vacancy status of properties, as well as inputting consumption figures. Controls to ensure this and other retailer data items are effectively managed will ensure that non-domestic revenues are maintained. In Scotland this has been an ongoing challenge for both the wholesaler and retailers.

The ability to compare wholesaler performance: With retailers working with multiple wholesalers, objective comparison will be possible which is likely to result in increased scrutiny on performance. One key driver for competition is to increase levels of service, so this is likely to be used proactively by retailers to push for increased service levels from underperforming wholesalers.

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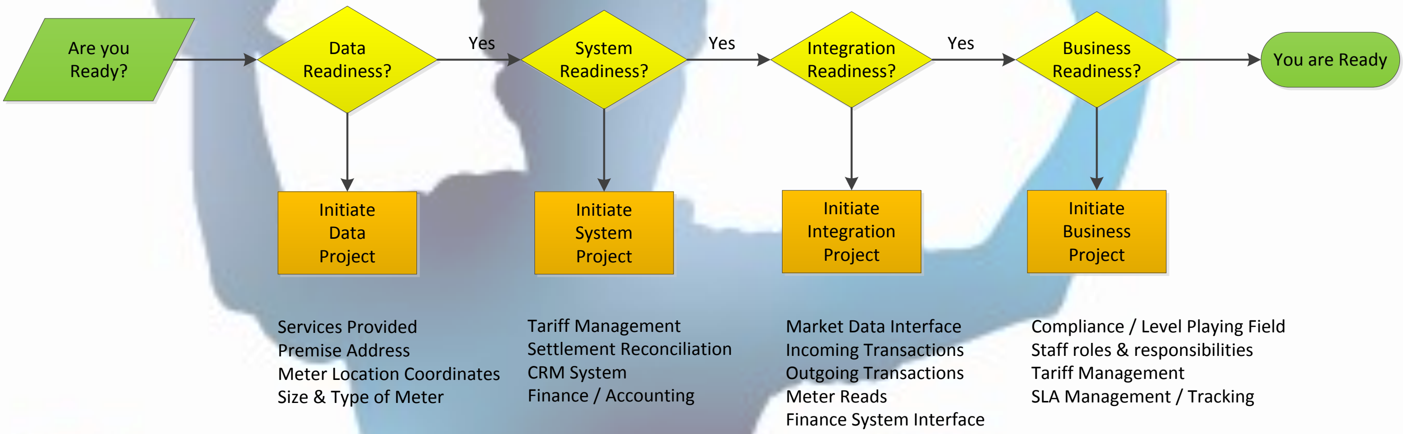
Getting ready



The number 1 priority for all wholesalers, as highlighted in the MAP 2 document will be data preparation.

This is likely to have the biggest impact on a successful market opening for wholesalers and is likely to take the longest time to achieve. Starting early is therefore essential.

You can read more about this in the Scottish Market Address Matching paper in this pack or on our website (below).

Working with other wholesalers on aligning operational processes for wholesale service desks will also reap rewards.

Another key consideration is ensuring data alignment by integrating fully with market systems.

Finally ensuring that robust settlement and revenue protection processes are in place will ensure that there are no financial surprises come market opening.

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Checklist

Key Considerations:

- Integration with market systems ☐
- Top or bottom quartile ☐
- Setting up a wholesale service desk ☐
- Managing settlement ☐
- Managing regulatory obligation ☐

Key options:

- Insource / outsource service desk ☐
- In house or outsourced systems ☐

Key priorities:

- Getting data ready ☐
- Setting & managing wholesale tariffs ☐
- Protecting core revenue ☐

Other things to consider:

- Designing business processes ☐
- Building & implementing systems ☐
- Ensuring regulatory compliance ☐
- Managing operational change ☐

Competition
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A quick reference guide and checklist for

Integrated Businesses

The time has come to decide (and quickly)

With MAP 2 now issued, all the essential information to allow you to make an informed decision about your options is available.

Market opening in April 2017 is fast approaching, meaning a decision about the overall structure of your organisation is essential if you are to be ready.

As there is no option for water companies to exit wholesale operations our guide for wholesalers will also apply to organisations that have not yet made a decision.

The key additional questions relate to the type and format of non-domestic retail to be undertaken.

Ofwat have offered three fundamental options:

1. **remain fully legally integrated;**
2. **functional separation or outsourcing within the current appointment; or**
3. **transferring non-household customers to an associated licensed retailer through the exit mechanism.**

Each has its own distinct set of opportunities and risks.

In order to make an accurate assessment of these, additional information is required. For example, understanding the costs for setting up a retail arm or how much revenue can be generated by selling the customer base to another retailer.

The difference between options 1 and 2 is primarily one of organisational structure.

However adopting option 3 could prevent unnecessary expenditure on generating a retail capability that would be duplicated (and therefore redundant) if customers are transferred to another retailer that has those capabilities.

Do you have (or can you develop) the capability to compete in retail?

This is the big question that needs to be answered.

With the possibility of 40-50 retailers in the market, what is going make customers pick you?

The answer might be that for a large number of customers there is insufficient incentive to switch and retail margins can be retained within your retail organisation for that reason.

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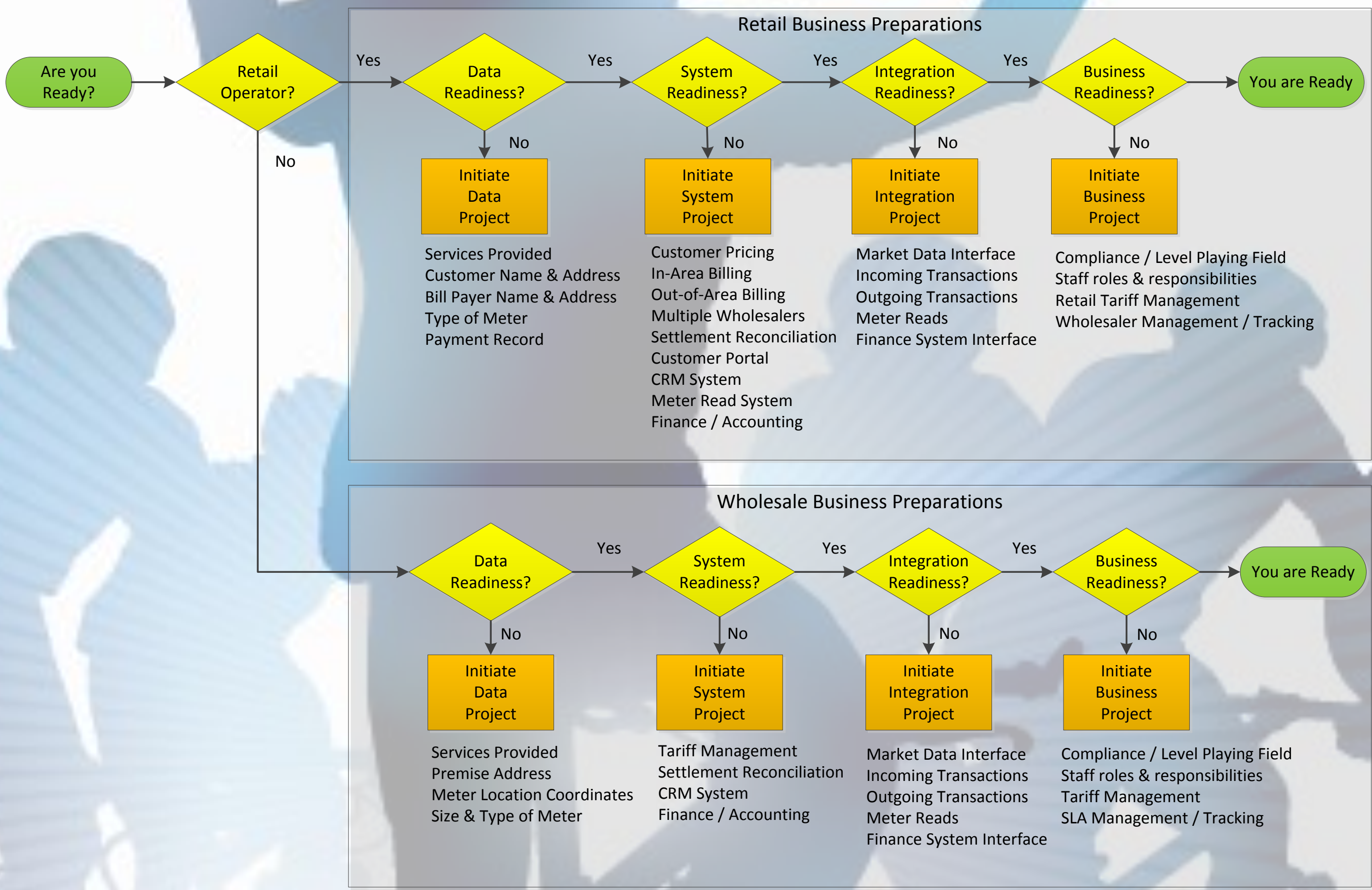
This means there are two possible options:

1. Develop a retail proposition that will ensure customers making a choice will pick you; this will mean considering all the issues discussed in our Guide for Retailers and is likely to require significant speculative investment. The potential reward however is the ability to retain and increase retail margin within the organisation.
2. Manage your existing customers effectively but provide no additional customer proposition; this is likely to be a lower cost option, but can only result over the long term in declining retail margins as customers switch.

If neither of these options suit your overall corporate strategy then realising the maximum value of your customer base becomes the key focus.

Good quality customer data and relationships will be essential in maximising the value of this customer base.



Whatever you decide to do about retail there are things you can get on with in parallel.

The key tasks are:

- Getting your data ready
- Setting your wholesale tariffs
- Putting in place controls to protect your core revenue

Additional Resources

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Checklist

Key decisions:

Organisational structure ☐

Key options:

Separate wholesale and retail ☐

Vertically integrated business ☐

Retail exit ☐

Key priorities:

Getting data ready ☐

Retaining customers (for incumbents) ☐

Setting & managing wholesale tariffs ☐

Protecting core revenue ☐