

Date: 3 June 2016

Dear stakeholder:

Standard Licence Condition B1 (Duty to provide default services)

The purpose of this letter is to consult on the Water Industry Commission for Scotland's intention to have Standard Licence Condition B1 (Duty to provide default services) ("**SLC B1**") switched on in all general water and sewerage licences. Expressions used in this letter have the same meaning as in the Standard Licence Conditions of Water and Sewerage Services Licences or, where appropriate, the Market Code.

As you will be aware, SLC B1 requires the holder of any water or sewerage licence to offer the default services at the default standard (and at a price not more than the default maximum tariff) to any eligible customer who requests them in respect of any eligible premises. If an eligible customer accepts the terms and conditions so offered, SLC B1 also requires the licensee to provide the licensed services offered.

In 2012, after considering the number of market participants and the regulatory burden which the requirement to provide the default package posed, the Commission sought to find ways to encourage market entry, support the development of the market and bring greater choice to customers. The Commission used the provision in paragraph 9 (now paragraph 7) of SLC B1 to suspend SLC B1 from water and sewerage licences (other than those held by Business Stream) until further notice. In letters issued to Licensed Providers, the Commission made clear that it intended to keep the suspension of SLC B1 under review, and would carry out a review of the suspension of SLC B1 to determine whether, in all the circumstances, it would be appropriate to reinstate its application.

Since we first suspended SLC B1 there has been a marked increase in the number of retailers competing for non-household customers' business, to the benefit of customers. In addition to increased market participation, the Commission has updated market arrangements including several SLCs, and has implemented measures to ensure a level playing field and that the market works well for customers.

Water Industry Commission for Scotland
First Floor, Moray House
Forthside Way
Stirling FK8 1QZ

Telephone 01786 430 200
Email enquiries@watercommission.co.uk
Web www.watercommission.co.uk

In light of these developments, the Commission decided that it would no longer switch off SLC B1 in water and sewerage licences granted since August 2016. The Commission has also undertaken a review as to whether the continued suspension of SLC B1 in general licences granted prior to August 2016 should continue.

To date, the Commission has not been made aware of any concerns from these new Licensed Providers on the duty to provide default services. Indeed, we have significantly more Licensed Providers than ever before, suggesting that SLC B1 has not acted as a significant barrier to entry to the market and that it does not present a disproportionate regulatory burden on the Licensed Providers holding a general licence. The Commission also believes that the switching back on of SLC B1 in general licences granted before August 2016 will bring more consistency to all market participants' licence conditions and ensure a level playing field in Scotland.

The Commission has now concluded its review of the suspension of SLC B1 in existing licences and believes that it is in customers' interests for all Licensed Providers to be subject to the duty to provide the default package. Default services provide an important safeguard to customers and ensure trust is embedded in the market. As such and in line with our statutory duty to promote the interests of customers, the Commission takes the view that the reinstatement of SLC B1 is necessary to preserve the integrity and reputation of the market whilst ensuring that all Scottish customers receive the same level of protection.

The Commission's proposal is therefore to reinstate the application of SLC B1 in all general water and sewerage licences with effect from 5 June 2017.

I would welcome any comments you may have on this proposal by 25 May 2017. The Commission will take a final decision considering any feedback received and notify you accordingly.

Please do not hesitate to contact me if you would like to discuss this matter.

Yours sincerely



Charles Yates
Head of Competition