

Date: 31 January 2012
Our Ref: 120131 Satec Letter Conditon
B1
Your Ref:

Alastair Ross
Water Choice
PO Box 28576
Edinburgh
EH4 9AB

Dear Alastair

Standard Licence Condition B1 (Duty to provide default services) and the Provider of Last Provisions

The purpose of this letter is to suspend Standard Licence Condition B1 (Duty to provide default services) (“**SLC B1**”) and notify you of intended changes to the Provider of Last Resort (“**POLR**”) arrangements. Expressions used in this letter have the same meaning as in the Standard Licence Conditions 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 in excess of the default maximum tariff) to any eligible customer who requests them in respect of any eligible premises.

Following its recent consultations with stakeholders in the retail market, the Commission is of the view that it may not necessarily be in customers’ interests for all licensed providers to be subject to the demands of providing the default package. Having considered in particular the overall proportion of wholesale charges for which you are responsible and the regulatory burden which the requirement to provide the default package may therefore pose, the Commission is of the view that the obligation to provide the default package should be suspended from your licence. This letter therefore serves as notice the Commission has used the provision in paragraph 9 of SLC B1 and suspended SLC B1 from the purposes of the water and sewerage licences granted to you on 1 August 2007, with effect from today, 31 January 2012, until further notice.

You should note that the Commission intends to keep the suspension of SLC B1 from your licences under review to determine whether, in all of the circumstances, it would be

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

Chairman: Professor Gordon Hughes

Telephone 01786 430 200
Facsimile 01786 462 018
Email enquiries@watercommission.co.uk
Web www.watercommission.co.uk

appropriate to reinstate its application. The Commission will carry out the first of these reviews by the end of this current calendar year (2012) at the very latest.

Finally, you should also note that the Commission intends to revise the Market Code to bring the POLR arrangements in line with those for Gap Site allocation. This change will mean any licensed provider that holds less than 20% market share at the end of the preceding Year¹ (based on their wholesale charges from the most recent R1 Settlement Run) may choose to opt out before the beginning of any Year and not receive POLR Supply Points during the course of that Year. A Commission Change to the Market Code will be introduced shortly to effect this change.

I will also publish this letter on the Commission's website.

Please do not hesitate to contact me if you have any questions on the above.

Yours sincerely



Richard Khaldi MBA
Head of Competition

¹ As defined in the Market Code.