

## Timeline to deliver an efficient and seamless Anglo-Scottish market

### Phase 1: Now to summer/autumn 2013

#### Key tasks to deliver:

Define the market  
Price review methodology  
Input to draft Bill<sup>1</sup>

#### What are the critical issues?

- Is there an agreed, realistic and deliverable work plan in place?
- What is the scope of retail activity?
- What links are there between downstream activities and upstream activities?
- What costs are involved?
- What are the financial flows between wholesale and retail businesses?
- How will credit risk be managed?
- Is retail truly ring-fenced such that wholesale remains 'whole'? What is the extent of any ring-fencing and how is it monitored?
- What will be the structure of retail tariffs?
- What do 'default' charges and levels of service mean? Are they set at exit levels, the lowest common denominator, or a new level and if so, what?
- Will the retail gross margin be sufficient to allow all classes of customers to participate in the market?
- How are existing legacy agreements to be handled? Who will bear any potential loss?
- How will the duty to finance functions be applied?
- How will settlement and registration systems work? (A new system is likely to cost considerably more than the revisions that would have to be made to the current CMA system.) If a new system is created, who will pay for the Scottish aspects?
- Will the costs of a new system be added to the RCV at actual cost?
- How much work will it take to define non-household customers?
- When will the work plan be in place to make sure data quality is sufficient for a well-functioning market?
- How many customers are there in the market, who are they, and what services do they receive?
- How much progress has been made by companies in ascribing costs, fully loaded accounting and marginal costs to assets and to customers?
- Is the draft Bill consistent with the answers to these questions?

### Phase 2: summer/autumn 2013 to end 2014

#### Key tasks to deliver:

Price review  
Individual governance changes by companies

#### What are the critical issues?

##### Regulatory issues

- How will Ofwat set price caps such that they are consistent with government policy intentions?
- What Business Plan information will Ofwat require from the companies? (This would include detail on costs and allocation methodologies.)
- How will Ofwat handle new costs associated with opening the market upstream and downstream?

<sup>1</sup> It should be noted that in developing this timeline we have not attempted to anticipate or incorporate legislative timescales. It may be, for example, that some activities are dependent on the draft Water Bill's progression through Parliament.

- What principles will be set out for drafting Operational, Disconnections and Governance Codes? How will third parties (such as the incumbent wholesalers) be able to influence these codes? What is the scope for regional variation?
- Are any other 'standard' codes required?
- What are the price caps to be for 'defaults'?
- Will there be tariff baskets at the wholesale level?
- What approach will Ofwat use to ensure that all entrants have confidence that they are able to access the same wholesale price for the same service?

#### **Industry issues**

- What plans and milestones have the companies put in place in order to: allow for effective management of customers in the market? And allocate costs to customers and to assets?
- When will companies begin to prepare their wholesale function and be ready to deal with their retail operations (and those of potential entrants) at arms' length?
- When will companies begin to prepare their retail function so it is separate from the wholesale function?
- How are the non-price terms for the retail/wholesale interface addressed?

### **Phase 3: 2015 and 2016**

#### **Key tasks to deliver:**

Get to 'go active'

Develop codes

Create wholesale tariffs

Design and put in place the central settlement and registration systems

Ensure that individual company systems are compatible with these

Develop processes and specifications for seamless data population, transfer, verification and ongoing management

#### **What are the critical issues?**

- What process will there be for final approval of the Operational, Disconnections and Governance Codes?
- How will the Market Code be drafted and consulted on? Will it be a single code or will it be, in any way, regionally specific?
- How will the Market Code be finalised in the light of the new wholesale charge structure?
- How will the specifications and data requirements of the central registration and settlement systems (the code subsidiary documents in Scotland) be drafted?
- How will wholesale charges be developed?
- How will the structure and levels of wholesale charges be compared with the Final Determination?
- Will they be published such that all entrants know where they stand vis a vis the incumbent?
- When will trials be run on wholesale tariffs to ensure revenue is as expected?
- What checks will be done to ensure that retail default tariffs are consistent with the Final Determination?
- What will retail licences look like? When could the first licences be awarded?
- What will the application process look like? What will the application pack contain?
- How will compliance with codes be policed?
- Will there be special arrangements for smaller retailers?
- Will there be a shadow market that allows customers to agree contracts and switch prior to market opening?
- How will the central registration and settlement systems be run and managed to ensure confidence amongst all market participants? Where will it be located?
- If a new settlement system is to be procured, when will the OJEU process be started? (There is then likely to be only a year for system development.)
- How will IT communication between market participants and central systems work?
- How will customer data be transferred and checked to ensure that there is no corruption on transfer?
- How will the settlement and registration system be tested before market opening?
- How will wholesaler and central systems data be kept consistent in the period until market opening?
- What information systems will be set up by wholesalers to inform retailers operating in their area about planning/unplanned works on the network, trade effluent consents, emergencies, etc?