



13 February 2015

Dear Chief Executives and Managing Directors

With the price review firmly behind us and with a focus on the next 5 years and beyond, it is an opportune moment to update you a key mutual challenge, namely non-household retail market opening. The market opening is a joint challenge. There are parts for us all to play: companies, Ofwat, WICS and Defra.

Good progress that has been made over the last 12 months. I would like in particular to acknowledge the contribution that WICS, and Alan specifically, has made. It is undoubtedly the case that without WICS' and Alan's contribution the programme would not have achieved nearly as much, both in terms of delivery and engagement. In addition, companies are taking a constructive approach. Defra has a keen interest in ensuring UK Government policy is delivered effectively and on time and is working hard to ensure this.

In order to open the market on time, the new Water Act requires us to introduce changes to licensing, and a market architecture (for example a code with market terms and operational terms, a central market operator, switching, settlement and registration systems).

There are important constraints on us as a public body, which mean that any work (whether undertaken directly or through another party) must be undertaken in line with the controls placed on us by HM Treasury and the Cabinet Office. It is my role as Ofwat's Accounting Officer to ensure our compliance with these. To commercial companies I appreciate that these may from time to time appear unduly onerous and complex.

As you may know, we had envisaged that, in the light of OWML's being designated part of the public sector, OWML would be wound down and the delivery of the market architecture would be transferred to Ofwat. We had also envisaged that, in order to provide continuity and allow us to continue to benefit from the Scottish experience, we would reach an agreement with WICS that would enable them to become our delivery partner. However, this has not been possible.

You have seen the momentum and pace of work increasing recently, and we all need to keep that momentum and pace going towards market opening. I am therefore now

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setting out the arrangements we propose to put in place, and seeking the support of all parties for those arrangements.

We have asked the board of OWML to retain its responsibility for driving MAP3 to successful delivery. This will include by the end of May 2015 a comprehensive suite of market documents (for example a wholesale and retail code, market arrangements code and draft wholesale contracts). This will see OWML substantively discharge the responsibility for which it was created. We have also asked the board of OWML to complete its work in producing a set of business requirements for the central IT systems that will support the competitive market. This specification needs to be completed by the end of April 2015. In addition, Defra and Ofwat have asked OWML to procure an assurance framework, which will be used by Defra and Ofwat to gain assurance that the non-household retail market will be ready for competition on time, and in a way that will deliver benefits for customers. It will cover assurance in relation to all the work that is needed to make this happen – including by companies.

In parallel with OWML's work, Market Operator Services Ltd (MOSL), a private company which has as its directors Peter Simpson, Heidi Mottram and Steve Mogford, will be ready to take forward the procurement of the central IT systems (on the basis of the specification produced by OWML) by April 2015. In due course, we expect MOSL to become the market operator. I note that MOSL currently has articles of association, which will need to be changed before it can proceed with the (private) procurement of the central IT systems, and which may need to change further in order for it to become the market operator. It will of course also be important to ensure that the governance of the market, including for example the governance around changes to codes, is appropriate to allow the market architecture to evolve and to ensure a level playing field. We also expect MOSL to make use of the assurance framework being procured by OWML to satisfy itself and others that its work will effectively and efficiently contribute to the opening and operation of the non-household customer market, both in its procurement of the central IT systems and its development as the market operator.

In terms of governance, Defra, Ofwat and WICs (and in due course MOSL) will continue to have regular Retail Market Opening Management Group meetings, effectively as a meeting of each of the key players with a clear responsibility for the successful delivery of this work programme. Defra will be bringing to the next meeting of the High Level Group a proposal to develop this group and ensure that it continues to add value to the overall programme.

I also wanted to inform you that we have appointed a new director in Ofwat who will be accountable to me for delivering choice for non-household customers. We are finalising the arrangements for his appointment but he will, I hope, be in post from early March. As you would expect, an important part of this role will be to work closely and in partnership with OWML, MOSL, Defra, WICS and companies. To help ensure that effective programme management arrangements are in place, and without

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jeopardising the pace of the programme, I will be commissioning independent 'gateway' reviews, to take place at key milestones in the delivery of the programme. The first of these will take place as soon as possible.

Ofwat will also be looking to appoint a delivery partner on commercial terms. This delivery partner will support us in the work to support non-household customer choice, such as the new licence. We will use the separate funding arrangements under the licence to deliver this essential regulatory work.

We are working on an integrated programme plan which brings together the work that we need to undertake between companies, OWML, MOSL, Ofwat and Defra. This baseline plan

will be used to track progress and to inform delivery conversations that Ofwat will lead across the programme. The plan may change and be updated, and if this happens we will write to you to inform you in as timely a way as possible. We will write to you again with this plan and to provide clarity on the accountabilities, consultation and information provision as they will affect different parties by the end of March.

I really recognise the commitment of the whole sector to deliver against the ambition the government has set out for us all in the Water Act. I hope that you share my view that, if we continue to work together and maintain a constructive, open, can-do approach, we can deliver choice to non-household retail customers that will deliver significant benefits to those customers, benefits to customers more widely and opportunities to investors as well.

I look forward to hearing from you whether I can count on your support.

Yours Sincerely

Cathryn Ross

cc. Sonia Phippard, Defra
Alan Sutherland, OWML and WICS
Pamela Taylor, Water UK