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Water company Chief Executives (by email)

04 December 2015

Dear Chief Executive,

I am writing to follow up on the UK Government's recent document 'A Better Deal: boosting competition to bring down bills for families and firms', which I am sure you will all have seen. The document sets out, prominently among other announcements, that the UK Government has asked us to provide an assessment of the costs and benefits of extending retail competition in England to household customers. It has been clear that we should produce this assessment by summer 2016.

### **Our response to the announcement**

We welcome this opportunity to reassess the case for competition in the household part of the retail market in England, and the confidence exhibited by the Government in Ofwat in asking us to conduct this assessment.

Since the publication of the Cave review of competition and innovation in the sector in 2009, the world has moved on. Companies are increasingly embracing the different approach we are taking to economic regulation. In PR14 companies worked hard within a very different regulatory framework to put customers at the heart of their business plans and deliver real benefits for them, the environment and wider society. We now have a better understanding of what competition in water and waste water retail could mean and the sector is working well to deliver it. We also have more evidence from the water sector and elsewhere of how market dynamics work, of the benefits they bring and the challenges they present. Now is also a good time to look again at the costs and benefits of competition for household customers, because it will enable us to factor the UK Government's conclusions into our next price review in 2019, and to consider how any move to household competition might follow on from the work currently being undertaken to deliver non-household retail market opening in April 2017.

### **Some overarching principles**

As you would expect, we are currently scoping the work required for the assessment. But recognising the uncertainty the announcement may have created in the sector, I want to share with you what I can now about how we will conduct our work. I will

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start by setting out three clear principles that will govern what we do and how we do it:

- **The decision on whether, in what form and on what timeline the household retail market in England will be opened to competition is a matter for the UK Government.** Our role is to provide a robust assessment that will enable that decision to be made.
- **Our assessment of the costs and benefits of extending retail competition to households will be evidence based.** The evidence we consider will be drawn from a broad base. It will include evidence from the process of opening up the non-household market in England to competition, and evidence from the sector and its stakeholders on the costs and benefits that would be expected from opening up the household market. But it will also include evidence from other sectors and internationally.
- **We will follow an open and transparent process, seeking evidence and ideas from those in the sector and beyond.** Within the constraints of what we are asked to do within the timeframe we have been given we will create a process that enables and encourages you to share your thinking, contribute to the evidence base and help test our emerging thoughts. We see this building very much on the approach we have been taking in all our work, including for example Water2020.

## Scope and timing of the review

We expect the review to consider the costs and benefits of competition for household customers in England taking into account:

- Different models of household customer competition;
- Different options for implementation (including timescales); and
- Identification of further policy choices that may be useful in maximising benefits and/or reducing costs.

We will publish terms of reference for the review early in the New Year, which will say more about the workstreams we intend to undertake, how we will progress them and key milestones. We would welcome views on this, but I should stress now that the period for responses will be short.

In line with the UK Government's expectations, the timetable will see us deliver our report in summer next year, to enable Government to take its decision in time, depending on the substance of that decision, for the transition to a competitive retail market in England to begin by the end of this Parliament.

## Links with other work

As noted, this review is well-timed, as it will enable the UK Government to make its decisions on household competition in England at a time that will feed in to our work preparing for PR19 and could build on the sector's work to open the non-household

retail market in England to competition. But, policy synergies notwithstanding, I recognise that this is a considerable additional piece of work at a time when we are already working hard to deliver across our portfolio and in particular our commitment to deliver the policy framework and methodology for PR19 in good time, and earlier in the cycle than we did before PR14.

I want to reassure you that our work on this review will not compromise the timescales for our work on non-household retail market opening or on Water2020 and in particular our work on the policy framework and methodology for PR19. Beyond this, as we develop our thinking on scope and timing, we are considering how best to resource the review.

If our recent experience is anything to go by, I know I can count on your constructive engagement, hard work and ideas to help us take forward this important piece of work, and I look forward to working with you.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Cathryn Ross', is centered on a white background.

**Cathryn Ross**  
**Chief Executive**