Review of retail household markets in the water and wastewater sector - an Ofwat call for evidence

submission one – evidence

Consumer Council for Water

February 2016

1 Introduction

1.1 The Consumer Council for Water (CCWater) is the statutory consumer organisation representing the interests of customers of water and sewerage companies in England and Wales. CCWater has four regional committees in England and a committee for Wales.

1.2 We welcome the opportunity to respond to Ofwat's call for evidence relating to its '*Review of retail household markets in the water and wastewater sector*'.

1.3 We are making two submissions to Ofwat. This first submission includes a list of evidence with summaries and internet links. **We will follow up with a second submission by 17 February 2016 to answer the four specific questions in Ofwat's call for evidence.**

2 CCWater Current Research

We are currently undertaking two separate pieces of research with customers. We expect the finding from this research will be available in time to inform Ofwat's assessment.

2.1 Household customer views on water market reform in England (due May 2016)

This quantitative and qualitative research revisits our 2008 survey of households on the concept of competition. Specifically it is covering:

- Views on current suppliers, services and retail services;
- Customer protection, particularly for vulnerable customers;
- Appetite for switching and learning from other markets;
- Motivations for switching including pricing;
- Appetite for innovative services, bundling of services;
- Barriers to switching/renegotiating; and
- Retail exit.

We expect that the final report will be available by early May 2016. We are actively engaging with Iain McGuffog at Ofwat about this piece of work.

2.2 Market reform in the water industry: Learning from the Scottish Experience (due April 2016)

This qualitative research with business customers in Scotland aims to identify and explore their experience of a retail water market open since 2008. We intend to apply what we learn to the developing model for the non-household retail water market in England, building in learning points. It may have implications for the household retail market as many business customers have water usage similar in scale to domestic customers.

During our design phase we received helpful input from Ofwat, the Water Industry Commission for Scotland and Citizens Advice Scotland. We expect that the final report will be available in April 2016.

3 CCWater Past Research (household competition)

3.1 Research into household customers views on competition in the water industry (October 2008)

http://www.ccwater.org.uk/wp-content/uploads/2013/12/Competition-research-with-household-customers-CCWater-and-Ofwat-October-2008.pdf

In 2008, CCWater collaborated with Ofwat to commission research with household customers in England and Wales to understand and then quantify their views on the principle of competition in the water industry, and motivations for, and barriers to, switching.

The key findings were:

- Over half of respondents (57%) say that they agree with the principle of introducing competition in the water and sewerage industry, but three in ten (29%) disagree;
- The main reason customers agree is because they believe it will lead to lower prices (55%). Those who disagreed typically argued competition would introduce an unnecessary complication;
- The biggest motivator for switching would be lower prices/discounts (67%), but people would be put off switching if it was too much hassle (25%);
- Overall, 54% of respondents thought that the introduction of competition into the water industry would be good for customers, mainly because it would lead to reduced prices. However, 16% thought it would be bad for customers mainly because there would be too many companies which could lead to confusion;
- Over one-third of respondents (37%) said that if given the opportunity to switch supplier, they would likely do so; and
- When a modest £20 saving was proposed, only 18% stated they were likely to switch.

3.2 Household water customers' views on water companies exiting the retail market (May 2014)

http://www.ccwater.org.uk/blog/2014/05/06/household-water-customers-views-on-water-companies-exiting-the-retail-market-16-may-2014/

The key objectives of this research were to: identify household customer views on the principle of their retail services transferring to another company; preferences/concerns for any brands/businesses that may acquire their account; and to test views of customers about what safeguards they would consider necessary if the Government chose to allow household retail market exit.

The key findings were:

- When first asked whether water companies should be allowed to choose to transfer their customer accounts to another company, half didn't mind (51%) but 43% did <u>not</u> think it was a good idea;

- Customers liked the idea of moving to another retailer to get better service (15%) or if they currently have a poor service (6%);
- Customers would prefer to remain with the incumbent if they already get a good service (61%), were concerned the transfer might go wrong (56%) or if the new company was one with which they had previous poor experience (51%);
- 6 out of 10 customers said they were reluctant to change in case it made bills more complicated; and
- In terms of safeguards, if accounts were moved to another company the main concerns were:
    - Charges should not increase (56%)
    - Could keep payment arrangements (52%)

4 CCWater Past Research (non-household competition)

This research does not specifically relate to household customers views on competition. However, some of findings may be relevant particularly as the behaviour of smaller business customers has been likened by FSB to household customers.

4.1 Uncharted waters: Non-household customers' expectations for competition in the water industry (Phase One: June 2014 & Phase Two: January 2016)

Phase one: http://www.ccwater.org.uk/wp-content/uploads/2014/06/Uncharted-Waters-Non-household-customers-expectations-for-competition-in-the-water-industry1.pdf
Phase two: http://www.ccwater.org.uk/wp-content/uploads/2016/01/FINAL-Uncharted-Waters-Phase-2.pdf

This research included focus groups and interviews with business customers in Phase One and their representatives in Phase Two on the design of the new competitive market in water.

The key findings were:

- Price is a big motivation for switching although other factors are important (better product/service, reducing consumption, and corporate social responsibility);
- Key lessons from other sectors that should be avoided in design of a competitive water market include:
    - Poor market regulation;
    - Profit driven suppliers with complex tariffs;
    - Limited cooling off periods;
    - Hard sell marketing; and
    - Contract lock-ins and automatic roll-overs.
- Key pillars to be taken into consideration when designing the market are: fairness; simplicity; transparency and flexibility;
- Customers describing an ideal switch journey with a straightforward series of steps; and
- Common tariff structures are required to aid comparison between retailers and pricing.

4.2 Testing the Waters: SME customers' views on water & sewerage services (July 2014)

http://www.ccwater.org.uk/wp-content/uploads/2014/07/Testing-the-Waters-SME-customers-views-on-water-sewerage-services-2014.pdf

We undertake research with business customers every other year to track their satisfaction with the service they receive from their water and sewerage company. Within this research, we also ask about competition (section 9).

The key findings in relation to competition in 2014 were:

- Awareness of market reform planned from 2017 is very low – less than 1% of SMEs are aware at a verified spontaneous level;
- No SMEs knew about the difference in market arrangements for England and for Wales;
- The majority believe that competition in the market will be a good thing; only 13% feel it will be bad for the market; and
- On average, SMEs are looking for a 19% bill saving to entice them to switch.

Field work is currently underway for the 2016 survey and results should be available in July 2016.

4.3 '*Exit Strategies*': Research into non-household customers' views on water companies exiting the non-household retail market (November 2014)

http://www.ccwater.org.uk/wp-content/uploads/2014/12/Exit-Strategies-CCWater-NHH-Retail-Exit-Research-FINAL.pdf

The main aims of the research were to find out:

- Non-household customer views about the sale or transfer of their account to a new retailer before, at or aftermarket opening in April 2017; and
- Whether different sized organisations held different views about retail exit.

The key findings were:

- Many businesses' preferred outcome would be for their water company not to exit the retail market; and
- Customers did see more advantages of a transfer to a licensed retailer associated with their local water company, rather than a retailer who is unrelated, such as, for example, 'Supermarket Water'.

Key customer concerns were:

- Retail exit will lead to higher prices and customers will be unfairly locked into a contract with a new retailer that they are unable to leave; and
- How long protections stay in place, to allow time to consider the market.

4.4 'Lessons learned': A cross-sectoral study of issues that have been detrimental or a risk to customers through the introduction of market reform (December 2014)
http://www.ccwater.org.uk/wp-content/uploads/2014/12/Lessons-learned.pdf

This report considers lessons learned for the development of the English water and sewerage retail market from consumer detriments in other sectors.

The analysis uncovered nine main lessons learned from other sectors, which regulators have used a range of tools to address:

- Incumbents may apply differential pricing or terms in dominant parts of their business;
- Incumbents may reduce service levels (e.g. to captive and high cost to serve customers);
- Mis-selling and misleading information is a risk during the 'dash for customers';
- Incumbent actions or regulatory failures may frustrate market entry;
- Retailers or regulatory failures may frustrate switching;
- Poor data or processes can result in mistakes during switching;
- Complexity can lead to customer confusion;
- Unfair and/ or hidden contract terms can confuse and disadvantage customers, especially the fringe customers (e.g. time poor); and
- Customers may be unaware of their right to switch or lack incentive to do so due to behavioural biases.

The following research is older, but may still be relevant:

4.5 Competition Research with Business Customers 2007
http://www.ccwater.org.uk/wp-content/uploads/2013/12/Competition-Research-with-Business-Customers-CCWater-June-2007.pdf

4.6 Deliberative Research concerning Consumers' Priorities for PR09
http://www.ccwater.org.uk/wp-content/uploads/2013/12/Price-Review-2009-deliberative-research-into-consumers-views-on-investment-priorities-for-the-water-industry-2010-to-2015-June-2008.pdf

4.7 Small and Medium Business Customer Views on Competition in the Water and Sewerage Industry
http://www.ccwater.org.uk/wp-content/uploads/2013/12/Small-and-Medium-Business-Customer-Views-on-Competition-in-the-Water-and-Sewerage-Industry.pdf

4.8 Understanding the Needs of Small and Medium Enterprise Customers
http://www.ccwater.org.uk/wp-content/uploads/2013/12/Understanding-the-needs-of-SMEs.pdf

5 Enquiries

5.1 If you have any questions about CCWater's response to this call for evidence, please contact:

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