

Review of retail household markets in the water and wastewater sector: Call for evidence

Southern Water's Response

February 2016



Southern Water's response to Ofwat's Review of household retail markets: call for evidence

Thank you for the invitation to provide comments and evidence to inform your review of the costs and benefits of extending retail competition to households.

We welcome the review. Competition has the potential to deliver more efficient retail services for customers as well as drive innovation in service provision. Having made good progress recently on preparing for the introduction of non-household competition next year, it is timely to consider whether there may be scope for extending it to households at some point in the future. Having a sound evidence base on the strength of the case, by the time of non-household market opening in 2017 is prudent.

That said, there remains a significant amount of work to prepare for the opening of the non-household market and there is now no flex in the timetable. It is important that the sector does not get distracted from delivery of that objective. There will also be important lessons to be learned post market-opening. It is essential to the credibility and legitimacy of the sector that we all work to deliver a successful non-household market before we consider extending to households.

In terms of specific evidence to inform the review, in light of the conclusions of the Cave Review and the subsequent focus on non-household competition, we have not carried out any work to understand either the costs or the benefits of household competition. You will be aware that Water UK has compiled evidence on the costs companies are incurring to deliver non-household competition and we have contributed to this. CCWater are also carrying out some research with household customers and we are working with them on this.

In conducting the review we think there are three key principles that Ofwat should apply.

First, it is important to be clear on the **fundamental purpose of introducing household competition** and to design and assess a market framework that meets those objectives. Ofwat's terms of reference do not clearly do this. For example, the Cave review made clear that it did not consider competition as an end in itself but "a means of improving services for customers, particularly the most vulnerable, and of protecting the environment." The current review needs to focus on a market model that is consistent with and contributes to the wider Government objectives for the sector, in particular resilience and affordability.

Second, it is important that the review gives sufficient weight to the voice of the customer **and customers' views** on introducing competition into water. We do not believe there is any significant body of evidence on customers' views of water competition and, notwithstanding the work being commissioned by CCWater, we would urge Ofwat to conduct primary research to understand customers' perspective.

Finally, we would emphasise the importance of **learning the lessons from retail competition in other sectors**. This is referred to in the call for evidence and we would strongly urge Ofwat to ensure that the review reflects the available evidence on both the customer and wider benefits that competition has delivered, as well as the additional costs to customers.

We are of course happy to engage with the review team at any time and would be happy to discuss how we could most effectively contribute to their work.