

January 2016

Trust in water

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

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1. Introduction

On 30 November 2015 the UK Government published 'A Better Deal: boosting competition to bring down bills for families and firms', stating that the UK Government had asked us to provide an assessment of the costs and benefits of extending retail competition in England to household customers.

In the draft Terms of Reference we set out the key elements of our review of the retail markets for household water and wastewater sector. We understand the interest that stakeholders will have in this work, and that many will want to comment on the issues and what we are doing.

Given the constrained timeframe for this review, we considered it important to make an early call for evidence. We welcome any early views and supporting evidence that stakeholders may wish to contribute to the debate. The timeframe only allows for a short window for evidence, but we expect our direct engagement during this process to provide additional opportunity for contributions.

2. Background

Household customers inevitably question whether they should be able to have choice of their supplier. As with other utilities such as electricity, gas and telecom they expect to get excellent customer service and keen pricing from their retailers.

To understand if the introduction of competition to household customers in this sector is beneficial we will consider the substantive body of evidence which exists, including the findings of previous reviews, such as the Cave review of competition and innovation in water markets in 2009. We will also take into account changes in the sector and the wide body of new evidence that has become available since the Cave review, recognising the evolving regulation, such as from our 2014 price review, the opening of the non-household retail market in England in April 2017, and our Water 2020 work to open up markets and set the framework for our price review in 2019.

We can draw from the experiences in retail markets in other sectors. Other utility sectors have demonstrated that market forces can deliver a range of significant benefits to customers, including reducing costs, improving service and providing strong incentives for innovation. However, we must also consider the risks to introducing competition in this sector to customers, companies and investors. Our assessment of potential competition for household customers will consider lessons and reviews from other sectors and the influence of issues specific to the water and wastewater sector, including recent market reviews that may provide important lessons and evidence (including, but not limited to, reviews in energy). We will also seek to understand through our analysis of evidence the potential barriers to effective competition to consumers.

3. Scope of the call for evidence

If we are to achieve our objective of providing a useful, well-evidenced review to inform the UK Government's decision, we will need your engagement and input. We hope that in taking forward this work we can build on the approach we have established through our recent work. We welcome any information you wish to provide to inform the review.

In the next few months we will analyse existing evidence on the benefits and potential costs of introducing household retail competition. The evidence you provide will form part of this. We particularly welcome any information or evidence relating to the following:

- existing studies and research that illustrate the benefits and risks of introducing competition to allow households to choose their retail provider of water and wastewater services;
- market design, that may affect the analysis and your views on how these can best resolved;
- alternative competitive models and factors determining the impacts that each may have;
- evidence of customer views and attitudes to competition and the operation of retail markets in other sectors (not limited to utilities), as well as in the water sector; and
- the importance of choice to customers, including the kinds of choice that are important, and how competition can influence this.

In keeping with one of Ofwat's key principles for this work, set out in the Terms of Reference, we request that you provide evidence-based views and statements wherever possible.

Ofwat has also been asked to produce an assessment of costs and benefits. We would also therefore welcome views on some specific questions set out below:

What are the advantages and disadvantages of extending competition to retail services in the water and sewerage sector to household customers? How could this best be achieved?

For example: impact on prices, service and costs; impact on water efficiency; impact on security of supply; influence on network operators/wholesale suppliers and ability to drive efficiencies through the value chain; interactions with the upstream market; targeting of customers and the management of different customer groups (such as vulnerable customers and bad debt); implications for cross-subsidies; the need for metering; economies of scale for both wholesaler and retailer; interaction with other service providers and other utilities.

What scenarios for retail competition could be considered in Ofwat's analysis? What are the advantages and disadvantages of each for water and wastewater services for customers, the environment, wider society and investors?

For example, a "thin" model approach where the scope of the market activities was limited to providing core retail activities; the "thick" model approach, which could include more activities and customer interactions; a "narrow" market such as for a specific sub-set of customers; a "wide" market which could include all or most household customers. Should choice for customers be considered wider than the water sector in considering the model (e.g. other utilities)?

With respect to potential competition scenarios used to support the analysis, what additional risks or opportunities should be captured in Ofwat's analysis? How should these be assessed? What would be necessary for each of the scenarios to be implemented successfully? Over what time period could implementation take place?

Including for example the assessment of economic, natural capital and social costs and benefits of different scenarios for retail competition. What time frame for appraising costs and benefits should we be used? How quickly are benefits likely to arise and what factors in the scenarios that affect this?

What are the interactions between household water retail and other markets in the water sector and beyond?

Including for example differences to the non-household water retail market, other utility markets, pipe repairs, water softening, competition in the supply chain to the water industry, house building. The impact on investment in infrastructure and upstream markets may be relevant.

We welcome evidence from both within the sector and beyond, with particular reference to other utility sectors and other sectors which stakeholders consider to exhibit similar characteristics or exhibit specific issues which we would need to learn from.

Once you have submitted your evidence to us, we may contact you in future as part of the review, either to discuss the evidence you have provided or to seek your views on this or other aspects of the review. Please indicate if you are not content for us to do this. This discussion will be specific to the call for evidence and will not replace the wider engagement that happens because of this review.

4. How to respond

By email: If you would like to submit your response by email or if you would like to attach a document in response to the call for evidence, please email a copy to household.review@ofwat.gsi.gov.uk

By post: If you would like to submit your response by post, please send to Household Retail Project, Ofwat 21 Bloomsbury Street, London, WC1B 3HF.

5. Deadline

The call for evidence closes on 17 February. Earlier responses and staged responses where evidence is already available will be very helpful to the review. Please let us know of any plans to provide additional evidence after this date so we can discuss how we may be able to take it into account within the timeframe for the review.

6. Ensuring a transparent and open process

We aim to follow an open and transparent process. We think an important part of this process is allowing all stakeholders to understand the views of other parties and the evidence on which those views are based. Consequently, we will look to publish all the information and evidence we receive and would encourage respondents to publish their submissions where practical, as this aids transparency and enable us to link evidence we use to the original source.

We will assume that any material submitted can be published unless explicitly stated otherwise. We would ask in the interests of openness that where a request is being made for material not to be published, this is focused on specific text rather than a blanket request.

7. Enquiries

If you have any enquiries relating to this document please contact:

household.review@ofwat.gsi.gov.uk or by post, Household Retail Project, Ofwat 21
Bloomsbury Street, London, WC1B 3HF.

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

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