

From: [Graham Hanson](#)
To: [Household Review](#)
Subject: Feedback from: Residential Retail Review
Date: 28 July 2016 09:49:39

Dear review team,

Thank you for inviting me to the recent workshop in Congress House. I'm sure that others, like me, appreciated the chance to make an input to your thinking at this critical stage in the review.

I am the Chair of the Customer Scrutiny Panel (i.e. in your generic terms a CCG) for Sutton & E Surrey Water Co, and thus my focus in considering the opportunity for Residential competition is within the context of what impact (positive or negative) it may have on customers.

At your event I was on Table 6, and I was copied by Simon Sperryn (a fellow CCG Chair) on his input to you on concerns with your conclusions – which I am very supportive of. It was also very relevant that at your event the majority of the questions and concerns raised in the Q & A at the end were also from CCG chairs – so I do sincerely hope you took note that there are significant concerns from key customer groups.

I have discussed your conclusions at a meeting of my Customer Scrutiny Panel, and thus my feedback below is on behalf my panel, and not just my personal views.

In summary we felt;

- The Emerging Findings report is not balanced, putting a positive gloss on the benefits of competition without addressing the attendant risks and disbenefits. We strongly believe that the risks and disbenefits are much greater than suggested by Ofwat, and that Ofwat needs to rebalance these in its response to Government.
- We very strongly believe (a view that I also believe is consistent across CCGs) that it would be far more sensible for Govt/Ofwat to let Business competition settle down for at least 2 years and learn any lessons from that before considering further ref Res competition.
- Furthermore we would contend that it still possible (and more cost effective) to get improved service and benefits (including innovation) from developing regulation and governance (incl via use of CCGs as a customer focused driver of change through their associated water companies)

More detailed concerns and comments are;

- As strongly stated at your event the Review interpretation of results ref likelihood of switching (especially ref 45% “likely to switch even without price benefit”) appear completely unrealistic. Reference was made by respondents to the CCW research that suggested a max of 6%; and indeed SESW’s own household survey returned a 1% figure for “strongly disagree water charges are affordable” with 6% “tend to disagree” – so our view is much more weighted to the CCW level.
- Generally utility competition is implemented because there is a compelling driver to do so – e.g. perceived over charging and/or poor customer service. But these reasons don't exist in water. We hope Ofwat recognise that public trust and confidence (including customer satisfaction) in the water industry is very high; yet competition will most likely attract suppliers from markets which customers rate as giving poorer satisfaction and attract lower levels of trust. Therefore my Customer Scrutiny Panel is very concerned that there is a strong risk that overall satisfaction goes down because (i) Water Co's currently have higher than utility providers average satisfaction, whereas additional providers with lower satisfaction levels will dilute the overall level (ii) adding an extra level of contact will likely increase complaints, because there will need to be a hand off

(especially as many contacts relate to operations rather than service e.g. hardness, colour, leaks vs billing, customer service).

- Again as mentioned at the meeting we suggest you review interpretation of bad debt “opportunity”. We agree with the strong views expressed that there is very limited opportunity for new entrants to better manage bad debts – especially as “no disconnect” option. It is unreasonable not to assume that new entrants will target profitable accounts and avoid vulnerable customers and people with poor credit records. These customers will be left with the incumbent who will no longer have the scope for cross subsidy, let alone the ability as now to mobilise the support of other local customers for funding social tariffs.
- You should investigate the Multi-utility opportunity in more depth, as we are not convinced it is necessarily a customer benefit. Evidence of other utilities competition via multi-utilities is that bundling could reduce choice as multi utility providers generally agree a preferred provider for each utility in order to maximise volume/price benefits. In addition the view from Utility Warehouse (who were represented on our table at the event) is that there would be little likely interest as water margins would be too low, and there would thus be no justification for using comparison sites.
- We suggest that you review further the cost of opening up the market. CCW and many Water Co’s believe Ofwat have under estimated costs.
- Water efficiency: Ofwat assume increased efficiency, but why would new providers focus more than incumbents, and assume new providers could only focus on this via complete roll out of meters. The water companies have every incentive to manage demand and conserve stocks because they depend on their ability to abstract water for present and future customers to use. Competition will break that link between supplier and consumer and obscure the shared interest they both have in conserving local water and investing in resilience for the future.
- We thus believe the Ofwat scenarios are all over optimistic on switching, costs and benefits, assuming different levels of benefit without quantifying with equal care the possible downside.

I trust that you will find the above feedback helpful, and I sincerely hope that you will pay due attention to the concerns of CCG’s in general, as being a strong representation of customer views rather than water company views. I would add that the concerns expressed by me on behalf of my CSP are not intended to be objections against competition. We recognise that Ofwat were given a specific brief to consider the cost/benefits of residential competition, but in that context our concern is that Ofwat’s feedback to Government needs to be more balanced, and accurately and appropriately reflects the customer’s existing trust and satisfaction with water providers, and thus the indifference to being interested in competition and switching revealed in the CCWater research.

Regards

Graham Hanson

Chair, Customer Scrutiny Panel, SESW