



South Staffs Water

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Household Retail Project
Ofwat
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By email: household.review@ofwat.gsi.gov.uk

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Dear Ofwat,

South Staffs Water welcomes the engagement that Ofwat has undertaken as part of the review into the costs and benefits of a competitive retail household market. In the short time allocated to this review by the UK Government, a great deal of information has been revealed and examined. We fully recognise that the core aspirations that underpin this proposal – to introduce choice for customers, to introduce competitive pressures which drive costs down and efficiency up, and to increase innovation – are ones which are in the interests of customers in the future.

We do though have a number of comments on the report that we would like to highlight.

Is the financial case for customers compelling enough?

The overriding factor in our view is the scale of potential benefit relative to the certainty of its achievement. Customers have clearly indicated that a saving significantly above that predicted to occur would be needed to make switching worthwhile. The average saving per customer in scenario 1 (being the highest of the four scenarios presented) is £6 per annum but CCWater's research shows that only 6% of customers would consider switching for a saving of less than £10 per annum. We do not think this has been given appropriate weight in Ofwat's report given the scale and complexity of change required to unlock it.

Do multi-utility retailers deliver comparable levels of service?

One of the primary drivers for reduced costs to customers is modelled based on savings that can be achieved through multi-utility retailers. Given the quite large gap from customer service levels in the water industry to those in a number of adjacent markets (energy and telecoms for example), there must be a concern that the low level of savings may come at quite a high price in terms of service. We believe this would benefit from more investigation.

Is there enough consideration of the potential negatives?

We are also concerned that in some areas the downside risk may not have been fully considered. Two areas give us particular cause for concern.

Firstly, customer affordability and vulnerability have become major considerations in the water industry with a significant degree of regulatory leverage used to drive these themes forward; perhaps more so than in other industries. When combined with the quite aggressive

assumptions around improved debt collection performance, we are concerned that the benefits (if they occur) could be to the detriment of the most vulnerable in society.

Secondly, the water industry is rightly concerned about and focused on water efficiency to protect our valuable finite resource; we would not want this focus to diminish in any way. Significant benefits have been allocated to increased water efficiency beyond that which companies are currently delivering. Given the likely small margins available for retailers there could be very limited incentive for water efficiency improvements. A possible solution to this could be to retain greater responsibility for demand side water efficiency in the Wholesale environment.

Are the cost and time to deliver both fully understood?

The cost benefit comparison relies upon a multiple of cost incurred in delivering non-household competition. We have a concern that the base cost for non-household competition is yet to be fully understood, and that indications are towards a much higher number than modelled. We also think that the multiple applied may under-estimate the complexity and difficulty that household competition will bring compared to non-household. This could also impact adversely on the proposed delivery timescales. It may be prudent therefore to exercise caution for now in arriving at a judgement, particularly as more complete cost information will be revealed on delivery of the non-household market in April 2017.

Summary

Overall, we recognise and value the aspirations of this review and appreciate that this is ultimately a decision for the UK Government. Having studied the analysis presented, we remain concerned that in practice the benefits are far from secure with many complex obstacles to overcome and understand at this stage.

Given the relative lack of financial opportunity for an individual customer even in best case, we would recommend that more consideration is given to the risks of achieving the aspired for savings and overcoming the implementation issues before a decision to proceed is reached.

We would also advocate a closer look at whether the alternatives to competition highlighted in the report may release a number of the benefits with more certainty and at greater pace whilst exposing customers to lower risk.

We remain fully committed to playing our part in exploring these important matters further for the benefit of customers and the sector overall.

Yours sincerely,



Phil Newland
Managing Director