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*Dear Cathryn*

**Wessex Water's response to "Costs and benefits of introducing competition to residential customers in England – emerging findings"**

Thank you for the opportunity to respond to your recent document. We continue to welcome the open approach taken in sharing the emerging findings before you report to the UK Government.

We recognise that it is difficult to quantify in advance the benefits that will be gained from a well-functioning market. Many of these benefits will be delivered by participants who disrupt the market in unexpected ways, and it may be that your analysis to date has underestimated these benefits, while many of the costs are more quantifiable.

Fundamentally the forecast of the balance of costs and benefits depends on a faith that markets, if well-designed, will better allocate resources and deliver trusted services to consumers - and as you know Wessex has a long history of promoting the greater use of market-based approaches so that customers benefit from greater choice, services tailored to their needs and lower prices.

Making what is ultimately a value judgement however requires us to acknowledge the difficulties of designing that market within the cost benefit assessment itself. A new-market that benefits the average customer by, for example, £10, but which results in a substantial reduction in social protection in service provision to the most vulnerable by £200 may not be considered to be good value overall, particularly if those additional costs of social protection are passed to organisations outside of the water sector.

These problems are unlikely to be insurmountable, but they must be well understood in advance if they are to be mitigated through market design and/or legislative change. If they cannot be fully mitigated then these impacts should inform the overall judgement on the cost benefit case.



A complete distributional analysis should therefore be an integral part of your cost-benefit assessment.

The recent ICS report on behalf of Water UK makes a high-level assessment of the magnitude of some of the implicit cross-subsidies within the sector.

We did not contribute directly to the ICS report and note that Wessex is likely to have a greater level of social protection built into its charges than other companies:

- We currently provide explicit affordability assistance to 23,000 customers many of whom receive bill reductions in the £100's of pounds
- Our current range of social tariffs have an eligibility potential of up to 100,000 customers in our region – around 10% of our household customer base.

The business case underpinning the support we provide is built around the fact that low-income customers tend to be customers for life and that a relationship built now pays dividends over the longer term. We need to consider how a future competitive market might impact on that dynamic.

The distributional analysis should also consider any future social protections foregone – many companies have only just introduced social tariffs, and ours have recently been expanded in scope significantly. A market design that freezes social protection at the current level may still serve to disadvantage those vulnerable customers that would otherwise have been assisted by these schemes over the coming years.

We would be happy to support any further work Ofwat undertakes in this area with evidence and/or analysis based on our own experience. Please do let us know who we should get in touch with if this would be helpful.

Very best wishes,



Andy Pymmer  
Managing Director