
Monitoring the Business Retail Market from April 2017: A consultation

We welcome the opportunity to comment on how Ofwat may monitor the non-household retail market.

NWGB recognises that it is important to assess the effectiveness of the new non-household retail market, however we feel there is a fine line to recognise between letting competition drive the market, and requiring measurement of metrics that may provide interesting information, but that are actually not key aspects of market function. We also note that certain information may be commercially sensitive to retailers, and that this is the information that should be left to the competitive element of the market to drive, rather than be monitored.

When Ofwat asks for data to be reported, it is expected to be suitable level of accuracy, robustness and assured, in order for there to be confidence in the reported data. In a competitive market companies may be willing to use business data to make decisions that do not meet the usual threshold expected by a regulator of a monopoly market. This is particularly relevant in areas where companies may have different views on what is a key metric, and may not even collect certain data systematically as part of their day to day functions. We feel that any metrics that are required to be reported should be those that are commonly agreed to be appropriate, so as not to materially add to company's business requirements. Requiring metrics to be reported that are not core to a business function will add cost for companies, and we feel monitoring should be as light touch as possible. There are a number of metrics proposed that we feel stray over this line and we have commented on this in the response to the questions below.

Any data analysis carried out centrally would be more efficient for the market as a whole as it is carried out once and does not need the additional step of collation of data. We repeat the view expressed at the workshop in November 2016, that there is a lot of information available in the central market system, and use of this should be maximised.

Response to questions***Q1 Are there any other objectives that market monitoring could or should fulfil in addition to those mentioned in section 2.3?***

We agree that the seven bullet points set out at the bottom of page 10 in the consultation are a reasonable set of criteria to use to determine what monitoring is needed. This is already quite an extensive list and we have nothing to add to it at this time.

Q2 Do you agree with the issues we propose to monitor? What issues do you think should be monitored particularly closely?

The broad concept of the issues to measure seem reasonable, however the detail of how to monitor these items needs to be carefully considered.

We feel that the three points on market conduct are the areas that should be prioritised for monitoring: behaviour of market participants, treating customers fairly and quality of the switching process.

The proposed issues around market performance seem to stray into the area where detailed reporting might be needed from retailers. In particular, we note that the “Customer Outcomes” bullet point mentions information on the detail of retailer services. We feel that this the type of information that may be commercially sensitive, becomes more complex to report and starts to test the limits of relevance to the functioning of the market, and should not be a priority, if reported at all.

We do not believe that information on multi-utility services is a priority for the water industry market, and the number of customers on different types of service (such as water-only) is information available in the central market system.

Q3 Do you agree with the type and format of the information we are planning to obtain from the market operator? We welcome views on:

- ***the choice of metrics, their usefulness for our assessment of the market and ways of ensuring they are as useful as possible; and***
- ***the availability of that information, the opportunities and limitations of obtaining information from the market operator, including sources that could supplement it.***

The metrics proposed to be obtained from the market operator, as set out on Appendix 1 of the consultation document, seem to be reasonable.

We feel that any analysis of data that can be obtained from the Market Operator should be the first objective as this data is available centrally, and therefore only needs to be produced once.

We note that the more complex this analysis is the more it would cost and this impacts on market participants, so a rational check on the complexity of this reporting needs to be maintained. It may be useful to consider identifying the annual costs of the market reporting as part of the market operator budget as a sense check on the level of reporting being carried out.

Q4 What information will retailers hold that will help us achieve our monitoring objectives? We welcome views on:

- ***the choice of metrics, their usefulness for our assessment of the market and ways of ensuring they are as useful as possible;***
- ***the availability of that information, including where else we could obtain the information that we would like retailers to provide;***
- ***the best way for retailers to share that information with us (eg most appropriate format);***
- ***whether retailers will be able to segment information in the way we require; and*** • ***the best way to make sure the regulatory burden is proportionate, especially for smaller retailers.***

General

Retailers will be the market participants that hold all the customer focussed information about how the market operates. This raises a difficult decision over deciding where the line is between information critical to understanding how the market functions and performs, information that is commercially sensitive, and information that interesting or nice to have.

We suggest that there may be a case for making a distinction between mandatory and optional metrics, and that the mandatory metrics are targeted very narrowly at the functions of the water market. Some of the proposed metrics seem to stray into areas that are part of the commercial

strategy of retailers, and may have sensitivity when being reported. We feel that these are areas where Ofwat should not report. We have indicated our views on this below.

Choice of metrics and alternative sources

We have commented in the table below on each of the metrics proposed for retailers to report, as set out in Appendix 2 of the consultation document.

We have classified our views on each of the items in the following way:

- Agree this seems to be an appropriate metric
- Optional this does not seem to be central to how the water market operates
- MO Metric this is a metric where we feel sufficient information could be obtained from the market operator
- Disagree we do not agree that this is an appropriate metric

Data item	Rationale	Comment
Retailers who operate in both the English/Welsh and Scottish markets	Although information on the holders of licences and their authorisations is publicly available, we want to assess which retailers are actively serving customers in each jurisdiction. This will help us determine progress towards the programme success measures.	Agree. However, we note that there may be an opportunity to work with the Scotland regulator and market operator to obtain and analyse this kind of information which would result in a richer analysis that benefits both regulators and markets.
Number of retailers who offer multi-utility billing	This will be important in tracking the evolution of the market.	Optional. We feel this should be an optional metric, as it is not directly related to the functioning of the water market.
Number of third party intermediaries' retailers deal with	Understanding how third party intermediaries take part in the market will be crucial.	Agree. However, we think this should not extend beyond a count and a clearer definition is required. "Deal with" could mean organisations retailer talk to, tender through, or secure customers through. The definition of who qualifies as a TPI may also need to be clearly defined.
Number of customers on water-only or multi-utility billing	This will allow us to understand the uptake of different kinds of service.	MO Metric. Information on whether customers have water only, water& sewerage or sewerage only is available from the market operator, through the service component information. We therefore do not feel that this needs to be gathered from retailers. Optional. We consider the multi-utility information should be optional as it is not directly related to the functioning of the water market
Customers' accounts in debt	This will allow us to monitor potential bad debts between retailers and customers. It should give us an idea of the market's efficiency and any potential issues with payment.	Disagree. We do not feel this is a metric that reflects market performance, rather it measures specific retailer performance, which should be addressed by competition. It is also very commercially sensitive.
Assistance for vulnerable/sensitive customers	This will allow us to monitor what help retailers are offering their vulnerable/sensitive customers.	Agree. However, the specific metric needs to be very clearly stated and targeted. This proposal is not clear as it stands.
Number of microbusinesses retailers provide services to	We want to make sure microbusinesses are fully engaged in the market.	Agree.

Data item	Rationale	Comment
Number of microbusinesses exercising their right to cancel a contract during a cooling off period	This is a specific requirement of the Customer Protection Code of Practice and will give us a useful insight into the effectiveness of the switching process as a whole.	Disagree. The statement that this would provide a “useful insight” indicates that this is not really a key metric. In addition, measuring whether a customer exercises their right to cancel the contract is more of an assessment of customer behaviour rather than the effectiveness of the switching process.
Volume of customers being supplied pursuant to statutory schemes of terms and conditions, in the case of licensed retailers; or an appointee’s statutory duties in the case of integrated retailers	This will help us to understand how many customers are actively engaged in the market.	Agree.
Volume of customers who renegotiate their existing contracts	In a healthy market, customers can not only switch between suppliers, but also negotiate better terms with their existing supplier.	Optional. We feel that this is commercially sensitive information, especially if shown separately for each individual retailer. The data is unlikely to capture where a customer continues their current contract over a new offer. If we don’t capture customer decisions to stay on their current contract, then this will skew the ratio between commercially negotiated ‘better terms’ and those on remaining on the current contract and therefore incorrectly assumed to be “sleeping” customers. Reporting all this is generating more complexity.
Methods of how customers have engaged with the retailer (e.g. directly or through a third party intermediary)	This will help us understand how customers are engaging with the market.	Disagree. The use of TPIs are part of a retailer’s commercial strategy and as such reporting on information by retailers would be commercially sensitive.
Consumption data/water efficiency measures	This gives us an idea of how innovative the market is. It is also a key measure of success for the programme.	MO Metric. Consumption data is available from the Market Operator. Wholesalers also carry out a lot of work on water efficiency and demand, through their leakage analyses and Water Resource Management Plans, and this may be a source of information to explore. In addition, determining how effective water efficiency activities are or whether consumption changes are due to efficiency or outside influences, such as the economy, makes analysing changes in demand a complex area that would require a lot of work on the part of retailers. The type of information required is also not clearly defined here. We feel that any consumption analysis should be sourced from the MO.
Tariff data	This will help us see if there is genuine innovation and efforts to meet customers’ differing needs.	Disagree. Tariff data can be reported in many ways, and it is not clear exactly what assessment of the market the tariff data is intended to provide. We are aware that in other markets complexity around tariffs has ultimately been seen as a problem, not a positive measure of market success. The level of tariff itself may also not be an indicator of success. Success may be the different services offered alongside a tariff,

Data item	Rationale	Comment
		<p>and this would not be visible in a blunt comparison of tariffs.</p> <p>Companies may choose to provide information on their tariffs, but we feel that before asking for such complex information, a closer consideration is required of what Ofwat really wants to assess about innovation, and whether this is really provided by tariff data, and whether this is a true measure of the market performance that should be monitored, rather than driven by competition.</p>

Ways to share information

A template for the information to be formally reported needs to be provided by Ofwat. The means of collecting this should minimise any requirement for investment in time or systems on the part of the market participant. Ensuring that any template is provided error free will be key, so as to avoid market participants having to complete information more than once.

We suggest that the excel format use by Ofwat in the past may be the most flexible and efficient means of collecting the data, especially if the reporting is carried out annually.

It may be appropriate for Ofwat to explore more technical options such as xml scripts or ADI, should data be required more frequently, so that retailers who choose to do so could use this format.

Q5 We would welcome views on our proposal for informal monitoring, any other tools we could use, and how we might make the best use of the information available.

The proposed informal monitoring approach would make use of information that is already available and therefore would seem appropriate to use. We suggest that incorporating comments from other participants in the market may be useful, for example:

- Non-household representative organisations such as the Major Energy Users Council;
- Escalated complaints data and external views may be obtained from CCWater and WATRS or any other ombudsman that retailers have signed up with to comply with the Customer Protection Code of Practice.

Q6 We would welcome views on how best we could involve third party intermediaries in our monitoring framework, which information would be best to collect and how we could obtain it.

It may be reasonable to ask retailers to report very simple high level information about TPIs, such as how many TPIs are involved, but TPI involvement is part of a retailer’s commercial strategy and revealing too much information in this area is, we feel, commercially sensitive.

We do not feel that retailers should be required to report detailed metrics that are not required for day to day interaction with TPIs. Any reporting in this area will incur additional costs for both retailers and TPIs, both of whom operate on slim margins and this may impact on their businesses. We also feel it would be difficult to engage TPIs in helping provide additional information. Ofwat may choose engage directly with TPIs.

Q7 We would welcome views on how best to collect useful information on market segments. In particular, we would welcome views on challenges to deriving the market segment information we envisage and ways of overcoming them.

The Market Data Set already contains information on UPRN (wholesaler core data), SIC (retailer core data). These two pieces of data could allow the market data to be linked up to other data sets, such as government open source data, that can be used to segment information.

Imaginative use of other fields in the market data may allow segmentation, such as the use of customer name.

We do not believe that market participants should be required to carry out extensive segmentation in defined ways. It may be worth researching among market participants to find out if there is any common data that they collect as part of their normal business processes that can be used, without needing additional analysis.

Q8 How can we best make sure that relevant information is shared in a transparent and useful manner, whilst also being mindful of commercial and personal confidentiality and without prejudice to competition law?

While the Market Operator is not Ofwat, the CMOS Low Volume Interface (LVI), where MO reports are published, is a forum open to all Market Participants, but that is closed to external parties. It seems appropriate to consider whether the outcome of any reporting could be published here.

We do not suggest development of the LVI, only that it could be used as a forum for publishing the outcome of reports, or more detailed breakdowns about published reports.