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3 October 2018

OFFICIAL

Dear Sir or Madam,

Meter reading services in the Business Retail Market

In late 2017 we received a number of complaints from retailers about the availability and quality of meter reading services in the business retail market.

In response to these complaints, we sent a letter to wholesalers and retailers in March 2018, flagging the complaints we received and the concerns raised. This included a questionnaire to collect evidence on these issues and to understand both retailers' and wholesalers' views. We also undertook desktop research and had engagement calls with several companies.

We are now making recommendations, primarily directed at wholesalers, to improve the meter reading services in the market. We set these out in this letter together with our analysis and assessment of the findings. We will not be taking action using our formal powers at this time.

We will look to engage with the sector around meter reading again after stakeholders have had a reasonable opportunity to consider and act on our recommendations, and as a part of our market monitoring work, and would expect to see significant improvement when this happens.

Issues and analysis

We received responses to our March 2018 questionnaire from all wholesalers and most retailers in the business retail market. In their responses to us, stakeholders identified what they saw as three main problem areas:

- A lack of competitive intensity in the meter reading services market leading to high charges and low service quality;

- Allegations of wholesalers associated with a retailer treating their associated retailer and other retailers on different terms;
- A view that inefficient market design on meter reading leading to suboptimal outcomes due to:
 - Lack of industry standards, which may create additional complexity, costs and risk for retailers. By having to negotiate with each wholesaler separately, retailers told us that they may incur significant search costs in acquiring meter reading services and can experience coordination problems when seeking national reading services, which may not be addressed by opting for a national provider if alternative providers are more expensive or are unable to replicate essential features; and
 - The onus of meter readings being on retailers and not on wholesalers. Some argued that placing the onus of meter readings on wholesalers instead of retailers could enable some scale economies deriving from the joint provision of household and non-household meter reading. At the same time, some argued that retailers could be better placed than wholesalers to differentiate and innovate their services by the types of meter reading they offer, so transferring the onus of meter readings on wholesalers could limit such benefits.

Our analysis has not led us to conclusively identify any competition concerns in relation to the first two issues at this stage. Since the business retail market has opened relatively recently, we consider that competition in the meter readings market may still take some time to fully develop, and that the price and quality of these services may improve alongside other outcomes, such as better data quality.

However, we are concerned at the lack of transparency around these services - promoting higher levels of transparency would reassure and help retailers, and reduce the risk of any anti-competitive behaviour taking place in the future.

The evidence we have collected is mixed, and that while promoting common industry standards for wholesalers offering meter readings isn't something that we would necessarily rule out in the future, we think the priority is to improve transparency and assess the impact of that through our monitoring work.

Recommendations to wholesalers and others

In terms of next steps for the sector, we recommend a number of actions, primarily for wholesalers. We consider that these would increase transparency in the market and raise trust and confidence. The recommendations are as follows:

- to decrease administration costs and improve transparency for wholesalers and retailers, all wholesalers should state clearly and in a relevant area of their website if they offer meter readings or not;
- to avoid potential competition issues, wholesalers should not renew the transitional service agreements for the provision of meter reading services still in place since market opening (if any);
- to improve transparency, wholesalers who offer meter reading services should publish their standard terms and conditions on their website as best practice; and
- to address potential complexity, costs and risks for retailers that may stem from a lack of industry standards concerning meter reading services, wholesalers who offer meter reading services should explore with retailers who purchase, or wish to purchase such services, the possibility of establishing common or standardised approaches to presenting terms and conditions for the provision of meter reading services.

We intend to monitor wholesaler progress against these recommendations, and to assess the impact that it has as part of our ongoing market monitoring. We would also remind wholesalers of their non-discrimination obligations under the Market Arrangement Code and the Wholesale Retail Code. Ofwat has concurrent competition powers with the Competition and Markets Authority to carry out investigations into anti-competitive behaviour, as well as a number of other regulatory tools which we may use where we consider there has been anti-competitive behaviour by market participants.

There were further issues raised by individual respondents, and we will be engaging with these retailers, wholesalers and national readings providers in the coming weeks to further understand these issues. Were these to raise significant concerns, we would not rule out taking formal action.

Yours sincerely,



Emma Kelso

Senior Director – Customers and Casework