

24th May 2019

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Dear Ofwat,

Ref: PR19 Draft Determinations for Fast-Track Companies

Thank you for giving us the opportunity to provide our comments on Ofwat's PR19 draft determinations for fast track companies.

It has now been more than two years since the business retail market opened to competition, and while it is still relatively early days, significant barriers to the market operating effectively remain. Non-household customers have experienced a number of problems with the operation of the new market – for example complaints have highlighted significant issues with market data.

All market participants have a role to play in achieving the necessary improvements to address market frictions but performance of wholesalers against industry standards and interaction between wholesalers and retailers have had a significant impact on customers' experience of the market.

While the on-going review of the Retail Exit Code will address some of the issues in relation to competition and price protection, issues underpinning the effective operation of the market should also be accounted for in the PR19 process.

It is our concern that little in the Draft Determinations seems to refer to wholesalers incentives required to improve wholesale service provided to business customers, and we have proposed below the key incentives around which wholesalers should focus their business activities during AMP7.

Background

We note that more than 2 years since the market opened, and apart from the OPS framework, there is no effective wholesaler incentive mechanism in place in relation to the business retail market, nor is there a committed timeline – unlike for retailers who in some cases could already face fines of up to 20% of their net profits.

We have been supporting the work done to date by the MPC Committee around OPS (which measures wholesaler performance in bilateral processes), but we would urge Ofwat and MOSL to ensure the OPS scheme is reviewed and is fit for purpose – in particular around the scope (currently too narrow), the incentives (financial incentives associated with OPS seem small and not proportional to MPS for retailers) and wholesalers' SLAs (current wholesalers' SLAs are unaligned with business customers' expectations in terms of timely response and resolution).

Although such an 'upgraded' version of the OPS framework is very much needed, it is also essential that a more holistic incentive framework is in place to measure wholesaler's performance at both customers (i.e. end-user) and business retailers' level, and we have set out below in more detail the two pillars of such incentive framework – i.e. 'B-Mex' and 'R-Mex'.

Business Customer Measure of Experience or 'B-Mex'

We were very supportive of Ofwat's introduction in PR19 of a Customer Measure of Experience (C-Mex) with appointed companies, which, together with the Outcome Delivery Incentives (ODI), intends to measure service performance with domestic customers.

However, we were disappointed to not see anything replacing the SIM to cover the services provided by wholesalers to business retail customers. The B-Mex could address for non-household customers similar areas covered by C-Mex for the household market, including a mix between customer surveys and performance metrics on key areas. This scheme will ensure transparency, drive and innovation on the part of wholesalers to improve outcomes for non-household customers.

Building on the positive impact and experience of such mechanisms in other areas, such a mechanism would need to deliver robust incentives to be fully effective (awarding good performance with penalties for poor performance). This should be a combination of both financial and reputational incentives and we have set out below some key areas to consider for B-Mex:

- Complaints figures: Business retailers have to submit monthly and annual complaints figures to CCWater, including a breakdown between retail, mixed and wholesale complaints. The level of wholesale and mixed complaints is therefore easily available and should be one of the key metrics of a future B-Mex framework. This would highlight differences in a number of areas impacting on customers, such as wholesaler policies, delivery of customer facing services such as meter exchanges and more.

- Data quality: Key market data areas (such as meter location) should be one of the primary areas of focus of the future B-Mex, and this should have a positive impact on the quality of market data. As mentioned in the letter sent by the UK Water Retailer Council (WRC) to Ofwat on 19 March 2019, we support the on-going work led by MOSL to improve market data, in particular the Data Improvement Plan (DIP), which will help in reducing market frictions and improving customer outcomes. However, key data items are excluded from the DIP and a more holistic approach is strongly recommended with clear incentives for wholesalers to improve market data.
- Customer Survey: Similar to what C-Mex covers with domestic customers, we would strongly suggest that B-Mex includes a survey on a group of business customers to measure their general satisfaction with wholesalers. This would drive better wholesale customer service and ensure key areas of customer concerns are captured and measured by wholesalers. We have a number of ideas on how to practically implement this as part of the AMP7 period, and we would be very happy to engage with Ofwat further on this.

Business Retailer Measure of Experience or 'R-Mex'

Monitoring business retailers satisfaction with wholesalers would drive better wholesale performance to improve customer outcomes, and as such we strongly support the on-going discussions at the Retailer Wholesale Group (RWG) to create an "R-Mex" measure.

However, to date progress has been slow and we would urge Ofwat and MOSL to play a more active role in coordinating with wholesalers and business retailers the implementation of such a measure.

It should be noted that only 3 wholesalers (South Staffs, Anglian and Thames) have made some commitment in relation to a business retailer measure of experience in their PR19 Business Plans, and we have not seen any of this in other wholesalers PR19 Business Plans nor in those of the three fast-track companies.

As the interaction between wholesalers and retailers plays such a critical role in the competitive market, the R-Mex should be a common performance commitment for all wholesalers, with a clear financial / reputational incentive mechanism behind it.

Yours sincerely,

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