



Rachel Fletcher
Ofwat
21 Bloomsbury Street
London
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31st October 2019

RE: Incumbent water companies and the development of effective markets

Dear Rachel,

I write in response to your letter on incumbent water companies and the development of effective markets and to confirm that we are sending today our detailed response to inform the autumn review.

Two and a half years after market opening, interaction between wholesalers and retailers still needs to increase and more needs to be done to resolve key market frictions. We recognise the part we play in ensuring the effective operation of the non-household (NHH) market and we continue to engage with business retailers to achieve improvements to customers outcomes.

We are committed to working closely with stakeholders, business retailers, MOSL and Ofwat, to enable rapid improvements such as the practical and targeted harmonisation of the market, improving market data quality and agreeing an incentive framework which drives collaboration. We are also supportive of the bilateral project which we see as essential to enabling better interaction between wholesalers and retailers.

We are providing more detailed evidence of work and commitments in our response to Emma Kelso's questions, but I would like to outline here the key points on our activities in constructive engagement, in support to a competitive market for developer services and to the development of new markets.

We recognise that the NHH market would benefit from greater levels of harmonisation. Whilst full harmonisation may require more time, we believe that targeted harmonisation such as, for example, simplification of tariffs and policies would benefit the market. We are currently investigating a simplification of our primary tariff structure and are planning to launch a wide consultation with our retailers in 2020. With the same aim of simplification, we welcome the work of the RWG in the agreement of a best practice guide on key policies and we are keen to contribute more and support this work in the future.

Whilst the framework to incentivise our performance in the domestic market is well developed with the introduction of C-MeX and D-MeX, we see the creation of an effective wholesale incentive framework for the NHH market as an opportunity for greater collaboration between wholesalers and retailers, and we support fully the creation of an R-MeX measure. We understand that a measure such as B-MeX will require further discussions on its implementation and use in serving the non-household customer; however, we would be willing to fully support and engage in shaping this.

Overall, we continue to increase our engagement with retailers and last week we responded to the questions asked by the Chair of the UK Water Retailer Council in his letter dated 13 September. We are supportive of an improved version of the MPF (Market Performance Framework) using the IPRP (Interim Performance Rectification Plan) process to drive focus on the understanding of issues, e.g.

market data, and the commitment to finding resolutions. We have shared these views with MOSL in the past and when subject to an IPRP in September 2018, we understood the importance of improving our performance and embraced the need to make change, delivering improvements in a timely fashion and beyond targets.

From the start of market opening, whilst we were committed to ensure compliance with level playing field principles and competition law, we were also keen to engage with the business retailers community on a level playing field basis and explore and address key market frictions. We have been proactive, but I am acutely aware that we must make more progress and improve our performance including the service we provide to developers. Therefore, we are currently strengthening and transforming the Developer Services team, increasing resources and placing at its heart our 5 customer principles to improve the experience developers can expect when working with Affinity Water.

Finally, for the effective development of new markets, we recognise that markets for water resources will be critical in meeting the supply demand challenges faced by the Company and in the wider regional context. During preparation of the PR19 Business Plan submission, we developed proposals for our Trading and Procurement Code and Bid Assessment Framework (BAF). These were discussed and approved by our Board, with consideration on how they would support the development of effective markets. We have identified an opportunity for retailers to play a significant role in demand management with the attendant benefits of lower costs for all customers and improving resilience through spreading demand reductions across all water users and we are keen to explore this with retailers further. We envisage that we could provide an incentive to retailers in return for their work in supporting their non-household customers in reducing demand.

Overall, we are progressing in our contribution to industry work and taking action to improve engagement and the service we provide to all our customers. We see the review as a new opportunity to share with our peers and facilitate the uptake of best practice and we look forward to playing our part in supporting the development of thriving markets.

I look forward to the outcome of the review and the opportunity to discussing our progress further.

Yours sincerely

A black rectangular redaction box covering the signature of Pauline Walsh.

Pauline Walsh