

31st October 2019

Ofwat
Centre City Tower
7 Hill Street
Birmingham, B5 4UA

Email to: incodem@ofwat.gov.uk

Dear Ofwat,

Ref: Incumbent Water Companies and the development of effective markets

Thank you for giving us the opportunity to provide our comments on your recent letter to incumbent water company CEOs. We believe this initial letter is an excellent start to the conversation with wholesalers, however we believe there will be much further to go to ensure the effective operation of the water retail market in the long term.

We have set out below the areas we believe should be key priorities for the market going forward:

- Greater harmonisation across the market, including both tariff structures and wholesaler policies
- Creation of a bi-lateral solution that works for all market participants
- Addressing the poor quality of market data
- Ensuring a robust incentive framework for wholesalers

As such, we have provided specific comments on each of these areas below.

Harmonisation in the Market

We acknowledge that Ofwat has requested detail from wholesalers in relation to how they will be 'simplifying' their policies and charging structures. The existing complexity within the market represents a significant burden to retailers and improvement in this area will greatly improve the customer experience. Whilst we support this initiative fully, it is also important that wholesaler charging structures and policies are harmonised. Most retailers will compete across multiple wholesale areas, and as it stands there is a high level of variation between wholesalers as to both how they charge and their policies, for example leakage allowances.

Creation of a bi-lateral solution that works for all market participants

We appreciate that the current market difficulties with bi-laterals have been considered, and that Wholesalers have been specifically asked about the actions they have undertaken to support the development and implementation of a market wide solution.

In line with the issue identified above in relation to wholesaler charging and policies, there are variations in approach taken by wholesalers regarding bi-laterals. This presents significant difficulties to retailers who engage across multiple wholesale areas. We would like to reiterate our support for such a solution, and remain committed to engaging with wholesalers to ensure any proposal works for all trading parties.

Addressing the poor quality of market data

We are pleased to see that the quality of data in the market remains a priority for Ofwat, as this is one of the key drivers of dissatisfaction in the market, impacting both trading parties and customers. Addressing the poor quality of market data will require engagement from all market participants.

Whilst understanding the current plans and engagement from wholesalers will be beneficial, there is still an underlying issue as to how any improvement processes will be funded. As many of the data issues currently within the market were inherited on market opening (e.g. long unread meters with incorrect locations) we believe there is sufficient justification for a co-funded initiative to tackle these issues. We would welcome further investigation or consideration in this area.

Ensuring a robust incentive framework for wholesalers

As we have previously raised in separate consultations, we believe that the current 'incentive structure' for wholesalers is insufficient to drive the necessary improvements. Whilst we appreciate that compliance with current OPS standards is critical, we believe the discussion will need to go further and address whether these standards go far enough to meet customer needs. One example would be the timescales in which wholesalers are obliged to respond to retailers, which in some instances significantly adds to the time taken to resolve to customer issues.

We hope that you have found our response helpful. Please get in touch if you would like to discuss our response in greater detail.

Yours sincerely,

[Redacted signature]

[Redacted name]

[Redacted title]