
Centre City Tower, 7 Hill Street, Birmingham B5 4UA
21 Bloomsbury Street, London WC1B 3HF

Open letter

By email

11 August 2020

Dear Bob

Review of incumbent company support for effective markets

In September 2019, we [wrote to you](#) to ask for your views and evidence as part of our review of incumbent company support for effective markets. We also sought input from Retailers in the business retail market, self-supply licensees and new appointees. Today we have published the results of our [review](#). I am writing to you to explain how Portsmouth Water has performed in our review.

We consider that Portsmouth Water has some areas of good performance but overall needs to do better. Notably, you performed strongly in Market Performance Standards (**'MPS'**) and Operational Performance Standards (**'OPS'**) and Water UK service level metrics for developer services, but have room for improvement in some aspects of your engagement with Retailers. This letter contains detail from our assessment and highlights some areas deserving particular attention.

1. Why incumbent company support for markets matters

Competition and markets can deliver benefits for customers and the wider sector by incentivising cost efficiencies, improved service and innovation. By supporting and providing high quality services to markets, incumbent companies can help the sector meet its strategic challenges associated with more volatile weather, population growth, affordability and changing customer demands.

Incumbent company effectiveness in supporting markets is as much about company culture and behaviour as it is about measurable service standards, which is why we cannot solely rely on market rules and quantifiable standards to achieve the goals we set. Please continue using your leadership position to support the behaviours needed to make markets work and to ensure your company delivers high quality services to these markets, including by ensuring adequate resources are provided to these parts of your business.

I am grateful to you and your company for providing a period of liquidity support to Retailers facing a loss of turnover during lock down. I look forward to seeing you work constructively with Retailers as we unwind the temporary interventions through to full payback of support by March next year.

2. What we found

Thank you for the information and evidence you submitted in response to the letter I [wrote](#) to CEOs last year. We have now assessed the evidence provided and our headline findings are as follows:

- Overall, there is room for incumbent companies to play a more active role in supporting the business retail and developer services markets;
- But this headline conclusion masks the real differences we found *between* companies and *within* companies. Some companies performed much better than others in many areas; others performed well in some areas and poorly in others;
- Collaboration can support markets and thereby benefit customers. A common theme was incumbent companies, in our view wrongly, using competition law as reason not to collaborate or as reason not to be more responsive of the needs and specific circumstances of individual market participants;
- Too few companies embrace markets and the role they can play in helping them address the strategic issues they are facing. Incumbent companies need greater commitment at senior or board level to effect change, so that supporting markets goes beyond compliance to behaviour and culture.

3. Portsmouth Water's support for effective markets

All companies must raise their game to improve their support for markets, however some have further to improve than others. Portsmouth Water has some areas of good performance but overall needs to do better. Below is a summary of our assessment.

Areas where you have performed relatively well

Portsmouth Water has performed well in meeting the requirements of the Market Performance Framework ('**MPF**'), narrowly missing out on top quartile performance for MPS and OPS in the 2019/20 financial year. You have not been subject to an Initial Performance Rectification Plan.

You appear to take a pro-active approach in collaborating with Retailers on data issues. Examples of this include initiatives to improve data quality (such as offering

free meter reading for long unread meters) and sharing details of your own analysis with Retailers. We note that you continue to be active in this area and are one of the founding members of the 'vacant' working group established by MOSL.

You demonstrated effective engagement with the developer community, covering a wide variety of topics. It is evident that you not only seek feedback on how to improve, but demonstrate to customers how you act upon their feedback. We note that you are considering a newsletter to assist with provision of more timely feedback and that you plan to invite other industry stakeholders to your engagement events. Thank you for hosting us at your event with developer and SLPs in December last year. We were encouraged to see that you held an open discussion on your charges from 2020 and other priority areas in your developer services work, such as D-MeX.

Areas that require attention

Your response does not assure us that you recognise the importance of seeking feedback from Retailers in relation to updating or simplifying your Wholesaler policies and tariff structures. You could strengthen your approach towards engaging with Retailers, for example through consultations, open days, or one-on-one meetings.

It is not clear from your submission the extent to which you have offered alternative credit arrangements. While it is stated that you have given Unsecured Credit Allowances to four Retailers, this was not evidenced within your submission and it is unclear whether these are provided under alternative arrangements via Schedule 3 or accessed via the standard arrangements under Schedule 2.

In October 2019, we compared companies' 2019/20 contestable new connection charges and found that your charges were in the lower range compared with other incumbents. Company specific costs should be reflected in charges. However, incorrect allocation of costs between contestable and non-contestable services could pose a risk to effective competition. In particular in your case, where SLP market share in your region appears low, this could be a cause for concern.

We reviewed company websites in October 2019 and found that you have no NAV or SLP specific webpage. We were unable to readily find information we expected, such as details around how to become a NAV with you, a published bulk service agreement and documents explaining how the bulk tariff has been calculated.

We are pleased to see that NAVs are invited to your annual Developer Services Forum. However, within your submission, there was no evidence provided to demonstrate that issues specific to NAVs are addressed through engagement with

them. We suggest that you review your developer services website overall, and your NAV engagement approach.

4. Next steps

The report published today provides more detail on our findings and also sets out a number of next steps. We want to see all companies improve - particularly those companies where we have identified weaknesses - and that support for markets is given proper senior management priority.

Transforming water companies' performance is a key strategic aim for Ofwat, and we see support for markets as an important component of overall water company performance. As a result we are exploring ways of making company support for markets increasingly visible. This could include, for example, adding company performance against some market performance measures (e.g. R-MeX), to our reports on company performance, further building on industry work to establish reputational incentives in this area, or requiring companies to publish information on their websites.

Both the report and the letters I am writing to CEOs highlight examples of good practice and I encourage companies to learn from these. I also look forward to hearing about the steps you are taking to support effective markets at our regular CEO meetings.

Yours sincerely,

Rachel Fletcher
Chief Executive