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Open letter

By email

11 August 2020

Dear Colin

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 Wessex Water has performed in our review.

Overall we consider that while you are performing reasonably well in developer services, Wessex Water performs less well relative to its peers in business retail. We consider you have significant room for improvement in a number of areas, including how you engage with Retailers and NAVs. 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. Wessex 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. Overall, Wessex Water has performed inconsistently. Below is a summary of our assessment.

Areas you have performed relatively well

Wessex Water has performed well in meeting the requirements of the Market Performance Framework (“**MPF**”) with top quartile performance for Market Performance Standards in the 2019/20 financial year. We also note that your performance against the MPF was not subject to Initial Performance Rectification Plans.

From a developer services perspective, Wessex Water provided a strong response to our question around engagement with developers, clearly describing the channels,

frequency and topics covered by the engagement. It is clear from your response that you use engagement with developers to learn how to improve the services offered. A number of companies invited us to attend their developer services events. We found these to be very informative and engaging. We would welcome Wessex Water inviting us as an observer to future engagement events.

As part of our review we also noted that you demonstrated a pro-active response to our letter of April 2019 regarding SLPs. In response to the letter, you undertook a review of your charges and identified changes, such as waiving some non-contestable fees relating to the costs of pre-commencement, re-inspection and legal agreements to promote the SLP market. Following engagement with customers, you have now implemented these changes.

Areas that require attention

Your response provided little evidence that you had put in place effective and robust processes for ensuring or improving the quality of market data. In particular the response provided little detail concerning processes to take into account information received from Retailers concerning the quality of data items held in CMOS.

You performed poorly in some aspects of our assessment of Wholesaler Retailer interactions. You acknowledged the importance of good Retailer engagement in your response and it appears that you have engaged with Retailers regarding changes you have made to your Wholesaler policies to ensure these take account of Retailers' needs. However your submission lacked sufficient evidence that you have effectively engaged with Retailers to obtain feedback on the quality of service you provide. It was also difficult to determine whether the engagement process you have in place is effective and accessible to Retailers and Wholesalers. And while you state that you offers alternative credit and payment arrangements, you have provided limited evidence to support this statement.

Our assessment also suggests that you could do more to engage meaningfully with industry forums and contribute to wider industry initiatives to improve market functioning. We note that your engagement with the Retail Wholesaler Group ("**RWG**") has been more limited recently and we encourage you to support the industry-led approach to market governance and play a more active role in the RWG going forward.

From a developer services perspective, your response on charges lacked detail or supporting evidence. For example, in common with a number of other companies, you did not assure us that the contractor rates used to set charges for developer services are cost reflective. Simply relying on the competitive tender process is insufficient to assure charges are cost reflective.

In addition, we reviewed company websites in October 2019 and found that Wessex Water is one of the few companies that does not have a NAV specific webpage. We were unable to readily find information we expected, such as details around how to become a NAV with Wessex Water, a published bulk service agreement and documents explaining how the bulk tariff has been calculated.

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