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

Open letter

By email

11 August 2020

Dear Ian

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 Sutton and East Surrey Water has performed in our review.

From our assessment of your performance in the Business Retail and Developer Services markets and your response to our information request, Sutton and East Surrey Water performs poorly compared with other companies. While we can see you have recently made some modest improvements, there is more you can do, particularly to support the business retail market. 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 lockdown. 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. Sutton and East Surrey 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 we consider that Sutton and East Surrey Water performs poorly relative to other incumbent companies. Below is a summary of our assessment.

Areas where you have performed relatively well

Sutton and East Surrey has performed reasonably well against the Market Performance Framework (“MPF”) with around 90% of Market Performance Standards (“MPS”) tasks completed on time in 2018/19 and 2019/20, and markedly improved performance against Operational Performance Standards (“OPS”) over the same period. Your performance against the MPF shows supporting markets need not be a function of a company’s size and resources.

Areas that require attention

Sutton and East Surrey Water generally performed poorly against the majority of our assessment areas and was one of the worst performing companies overall. In particular your response was insufficiently detailed and lacked convincing evidence.

Based on its submission Sutton and East Surrey Water has not put sufficient focus on improving its interactions with Retailers. For example, it is not clear that you have obtained feedback from Retailers on how you could refine and improve your Wholesaler policies, or that you have a structure in place for you to engage with Retailers. You did not provide any convincing evidence to suggest that you record and monitor rejected, deferred and late OPS tasks or that you engage with Retailers to share data on your own OPS performance. You did not provide any explanation as to why you have not offered alternative credit arrangements. Your response also suggests you have not attempted to simplify or modify your wholesale tariff structure since market opening.

Sutton and East Surrey Water did not provide convincing evidence that it has taken a proactive or effective approach in addressing data quality issues, including concerning its collaboration with Retailers on data quality. We note for example that you have undertaken some work on long-unread meters but it is unclear from your submission if this work has delivered improvements.

Furthermore, Sutton and East Surrey Water is lagging behind other companies in its support for developer services market. Despite having no NAVs operating in its area, we expect you to engage with, and prepare information for NAVs to enable them to operate in the area, should they apply. Absence of sufficient, readily-available, high quality information can be a barrier to market entry. From your response we note that you are currently preparing a NAV policy framework and guidance material which you plan to publish in the near future. We look forward to seeing this material published imminently.

In October 2019, we reviewed your website and found you have no specific webpage for NAVs or SLPs and we were unable to readily find information we expected, such as details around how to become a NAV with you. You gave examples of engagement with specific SLPs operating in your area, which is good, but not examples of engagement that is open to all. Both NAV and SLP stakeholders have highlighted to us that you are difficult to work with. We expected to find details around the frequency and type of engagement held with developers and NAVs, as well as how you handle feedback to continuously improve for these customers.

Your presentation of developer services or NAV charges was poor or absent, but you have now made some improvements. You had been the only company not to publish

bulk charges for NAVs, but have now done so. Unlike other companies, our review found that your published information for 2019/20 was insufficient to allow developers and SLPs to calculate new connection charges. For 2020/21 you have improved the presentation of these charges, such as providing more information on developer choices and including tables for requisition charges. For 2021/22 we expect you to engage and consult on new connection charges in good time to allow stakeholders to help you address outstanding concerns.

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