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Open letter

By email

11 August 2020

Dear Liv

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 Severn Trent has performed in our review.

From your response and our assessment of your performance, it appears Severn Trent is underperforming, for a company of your size and ambitions, despite being active in the SLP market. We consider there is room for improvement, particularly in the Business Retail market. We would like to see Severn Trent stretch itself to support markets more effectively. 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. Severn Trent'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 Severn Trent is performing less well than we would expect, for a company of its size and ambitions. Below is a summary of our assessment.

Areas where you have performed relatively well

Severn Trent clearly set out a number of areas where it has made changes to its policies or charges schemes to assist Retailers. You provided documentary evidence of how you consulted with Retailers on changes to trade effluent charges. It is clear from the information submitted that you considered the end experience of Retailers when making these changes and enabled them to feed into this process. We considered this to be a good example of how Wholesalers can engage with Retailers to improve the effectiveness of Wholesaler-Retailer interactions.

Severn Trent has also improved its overall performance against the Operational Performance Standards (“**OPS**”) and Market Performance Standards (“**MPS**”) in 2019/20. On OPS, performance improved from 66% in 2018/19 to 86% in 2019/20. On MPS, performance improved from 67% in 2018/19 to 82% in 2019/20.

From a developer services perspective, it is clear that there is a significant market for SLPs in Severn Trent’s area of operation. We received feedback from an SLP stakeholder as part of the responses to this review which highlighted that you are one of the few companies that can demonstrate a significant take up of self-lay activity in its area. This suggests there are not significant barriers to competition for SLPs, although further improvements could be made.

You provided an excellent response to our question about engagement with developers. The response was clear and the examples provided showed how customer feedback has led to changes to meet their needs, such as the creation of the ‘Developer Pack’. Customer feedback is discussed with the leadership team and is used to prioritise business change plans. We were pleased to see that you held several events with your developer customers. We would like to thank you for hosting us at your event with developers in September 2019. 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 updating your website to provide more focused information and services to different types of customers.

Areas that require attention

Relative to its peers we think you could play more of a leading role in supporting the work of the Retailer Wholesaler Group (“**RWG**”) and providing more thought leadership in developing solutions to address some of the key challenges facing the market. As part of our assessment we asked Wholesalers to confirm if they had fully implemented published RWG guidance. We were disappointed that we needed to write back to you to clarify this point, particularly with regard to your adoption of RWG unplanned events guidance.

You were subject to three initial performance rectification plans (“**IPRPs**”) concerning underperformance against some individual Market Performance Standard metrics. Notwithstanding the fact that two of the IPRPs were closed, you put forward limited descriptions of how you had analysed and addressed the reasons for such underperformance. In addition, concerning OPS metrics, it was not clear from your response that you record and monitor rejected, deferred and late OPS tasks.

You submitted a high-level response to the developer services charging questions. The description of how charges are calculated did not effectively describe how costs

are turned into charges. We expected more detail from you, given the high level of market activity in your area.

In common with a number of other companies, you did not provide sufficient evidence around assurance 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.

You described the types of engagements held with NAVs, but unlike the response around engagement with developers, there are no examples given of how NAV engagement led to changes in policy decisions or the service offered to NAVs. This was echoed by NAV stakeholders who highlighted that although you have made some progress, there are still concerns around delivery of the commitments made to NAVs as well as the current levels of service NAVs receive.

In October 2019 we reviewed companies' websites and were pleased to find that you have a dedicated SLP webpage, providing the information they require to work effectively with you. However, we found the NAV area of your website relatively hard to find. We needed to use the search tool, which directs the user to the 'Network Access Code' area of the website. Once found, we were unable to readily find information we expected. Since last autumn, we are pleased to see that improvements have been made to the website, for example, the publication of the NAV policy framework which sets out the process to become a NAV with Severn Trent, as well as a new tariff model which provides details around how the NAV 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