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Open letter

By email

11 August 2020

Dear Liz

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 Yorkshire Water has performed in our review.

Your response makes a compelling case for Yorkshire Water as a strong supporter of effective markets. While there is room for improvement, particularly with respect to response times in developer services, you have an opportunity to play a key role in leading the industry in how it can embrace markets to deliver sustained and meaningful benefits for customers. This letter contains detail from our assessment.

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. Yorkshire 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 your response showed Yorkshire Water to be performing at the forefront of the sector. Below is a summary of our assessment.

Areas where you have performed relatively well

Yorkshire Water performed strongly against our assessment of Wholesaler-Retailer interactions. For example, you submitted clear, comprehensive and convincing evidence that you provide a range of alternative credit and payment terms which are tailored to reflect the characteristics of Retailers and that you had proactively consulted with Retailers on your proposed offerings, and amended these following feedback. Yorkshire Water was identified as the example of best practice in relation to alternative credit and payment terms. You also clearly evidenced that you have

taken action to engage with your Retailers to simplify your tariff offering and refine your Wholesaler policies. You were one of only two companies to take positive action in this area.

You also performed well in meeting the requirements of the Market Performance Framework, with relatively strong showing against Market Performance Standards and Operational Performance Standards in 2019/20.

In developer services, you clearly set out how it ensures that charges remain cost reflective even when they are provided by a contractor. We note that you have made improvements in presenting information in your new connection charging document for 2020/21, which was an area for further improvement you identified in your submission.

You provided a clear response to our question on engagement with developers. This was well evidenced, showing how communication takes place over a variety of platforms and covering many topics including Codes for Adoption and an improvement of services delivered to customers. A number of companies invited us to attend their developer services events. We found these to be very informative and engaging. We would welcome Yorkshire Water inviting us as an observer to future engagement events.

We appreciate the active role you play in leading industry work, such as work on the Model Adoption Agreement and on the NAV Improvement Project, contributing to the development of the standard bulk service agreements. We encourage you and other companies to continue working together to improve outcomes for developer service customers.

Areas that require attention

Our assessment demonstrates that Yorkshire Water is among the best in the sector in terms of action taken to support the development of an effective Business Retail market. But there is some room for improvement. For example, you provided limited evidence as to how it manages information submitted by Retailers in relation to data issues and queries, with a view to ensuring the data held in CMOS and its own systems are accurate and complete. It is also not clear how an end customer can raise a query on data quality.

From a developer services perspective, you must focus on responding more quickly and effectively to developer services customers. Its compliance with Water UK Levels of Service metrics is among the worst of all water companies. SLPs tell us that this makes it unattractive to provide services in the Yorkshire Water area. We

encourage you to use the introduction of D-MeX as an opportunity to improve services to developers, SLPs and NAVs.

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