

---

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

Open letter

By email

11 August 2020

Dear Mel

## **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 Bristol Water has performed in our review.

We acknowledge that Bristol Water has demonstrated leadership within the business retail market in driving the Retailer Wholesaler Group (“**RWG**”) forward. And that it performs well against business retail and developer services measures of performance. However from our assessment of your response, you appear to have significant room for improvement in a number of areas, for example how you engage with Retailers and communicate with 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. Bristol 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. Whilst Bristol Water performs well in some areas, the lack of supporting evidence in your submission implies there is significant room for improvement in some areas. Below is a summary of our assessment.

### Areas where you have performed relatively well

Bristol Water has shown leadership in developing and driving the RWG forward. Bristol Water should consider how it could encourage other Water-only Companies to contribute in a similar way to the industry-led approach to market governance and

in particular the work of the Panel and RWG. Bristol Water's approach here shows that incumbent support for effective markets need not be a function of company size.

You are performing well in meeting the requirements of the Market Performance Framework with top quartile performance for Operational Performance Standards and Market Performance Standards in the 2019/20 financial year. We also note you have not been subject to an Initial Performance Rectification Plan.

In the developer services market, you perform well against the Water UK Levels of Service metrics. In October 2019 we reviewed companies' webpages and found that the information for SLPs is comprehensive, user friendly and easy to find.

In addition to the information provided through developer services processes, and online, we recognise your efforts to engage with your developers. Thank you for hosting us at your event with developer and SLPs in November 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 supporting more water efficient homes, and D-MeX. We think your published NAV video seems a good initiative to support staff development and culture and, in our review, NAV stakeholders recognised your ongoing effort to improve performance and delivery.

### **Areas that require attention**

Based on its submission, you performed poorly in our assessment of Wholesaler-Retailer interactions. You said you had received positive feedback from Retailers about your policy offering and tariff structure, but you did not provide any convincing evidence to show that you actively sought the views and input of Retailers in this area. While you state that you record and monitor rejected, deferred and late OPS tasks, again no convincing evidence was submitted to support this. Neither did you suggest that you engage with Retailers with regard to your OPS performance and the reasons behind rejected and deferred tasks.

In developer services, you did not provide enough evidence that your charges were cost reflective. In common with a number of other companies, you relied on contractor rates. Simply relying on the competitive tender process is insufficient to assure charges are cost reflective.

We have compared companies' 2019/20 new connection charges and found that your onsite charges tended to be significantly lower than the mean. For example, your total on-site charges in our scenario for a development with 50 homes are 38% lower than the mean. Company specific costs should be reflected in charges. However, the incorrect allocation of costs between contestable and non-contestable services could pose a risk to effective competition.

We reviewed your website in October 2019 and found that you have no NAV 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.

#### **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**