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Open letter

By email

11 August 2020

Dear Peter

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 Anglian Water has performed in our review.

Our assessment of your response and your performance suggests Anglian Water is a strong supporter of effective markets. 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. Anglian 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, Anglian Water performs well compared with other companies. Below is a summary of our assessment.

Areas where you have performed relatively well

Anglian Water has performed well in meeting the requirements of the Market Performance Framework, with top quartile performance for Market Performance Standards in the 2019/20 financial year, and no Initial Performance Rectification Plans.

You have supported effective market functioning particularly in terms of your engagement and contributions to the work of the Panel and its committees as well as

the Retailer Wholesaler Group (“**RWG**”). You provided clear evidence that your Board has discussed and provided input on the role you should play in the market.

You performed strongly against aspects of our “Wholesaler-Retailer interactions” assessment. For example, you provided evidence to show that you have developed digital tools, such as webinars, to help Retailers better understand aspects of your wholesale service. You also showed that you had taken action to make improvements to a number of your services since market opening.

You also provided clear evidence that you have developed and offered alternative credit and payment terms. This has been positively welcomed by stakeholders, and in particular has been aimed at new entrants. Our assessment would have been even more positive had you been able to provide evidence that you had proactively consulted with Retailers in developing your offerings. In offering alternative credit and payment arrangements, we have clarified in our main report our view that all Retailers need not be treated the same. While Wholesalers should not discriminate between Retailers, there is nothing preventing Wholesalers agreeing alternative credit and payment arrangements that are specific to the Retailer in question, providing that any difference can be objectively justified. We encourage Anglian Water to continue to develop its positive approach in these areas.

In the developer services market, we are pleased to see the effort Anglian Water makes to communicate and engage with customers and the industry. In October 2019, we reviewed your website and were pleased with the information available to your customers. We also note your strong performance against Water UK Levels of Service metrics which monitor the timely provision of information to developer services customers. You held several workshops on the new connection charges coming into force from April 2020. Thank you for hosting us at your event in July 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. We note from your response and comments received from other stakeholders that the number of new connections laid by SLPs has increased significantly over the past few years.

We appreciate the active role you play in leading industry work, such as work on the Model Adoption Agreement and in the NAV Improvement Project, where you have led development of the standard bulk service agreements. We encourage you and other companies to continue working together to improve outcomes for developer service customers. Once agreed, the standard bulk service agreement should be made available on your website. We were pleased to have received comments from stakeholders who believe you are improving your facilitation of the NAV market.

Areas that require attention

In terms of areas for improvement, we consider that Anglian Water could be taking more of a leading role in addressing the issue of wholesale tariff complexity. Your response recognises the challenge of tariff complexity and notes that you have previously done some thinking on this issue. We encourage you to take a leading role in working with the rest of the sector to explore the feasibility of greater harmonisation of tariff structures.

While your submission response to our new connection charging questions demonstrated that there are processes in place to ensure cost reflective charging, our analysis found that your requisition charges are lowest in all our scenarios, and service connections are close to the median overall. Your new connection and requisition charges are significantly lower than the mean for all English companies. There can be company specific cost drivers that might explain significant variances in charges. However, the incorrect allocation of costs between contestable and non-contestable services (or services where competition from SLPs is less viable, such as the provision of connections that do not require new mains) could pose a risk to effective competition.

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