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

Open letter

By email

11 August 2020

Dear Steve

Review of incumbent 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 United Utilities has performed in our review.

It is clear from your response that United Utilities is performing as a strong supporter of effective markets. While there is room for improvement, 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.

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. United Utilities' 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 United Utilities to be an industry leader in many aspects of its support for markets. Below is a summary of our assessment.

Areas where you have performed relatively well

United Utilities has been a class leader in terms of its support for effective functioning of the business retail market, particularly in terms of its engagement and contributions to the industry-led approach to market governance and Trading Party cooperation. We note for example your active participation at Panel and the Market Performance Committee, and at the Retailer-Wholesaler Group (“**RWG**”) with your lead role in developing both the Market Performance Standards priority changes as well as the gap/vacant sites incentives.

You have engaged constructively in terms of the need to meet the requirements of the Market Performance Framework (“**MPF**”). Your OPS performance in 2019/20 for example was in the top quartile. You also engage with the need to improve MPS performance subject to an Initial Performance Rectification Plan. In particular, you set out how you acknowledged and highlighted within your internal governance structure the need for improvement against the MPF.

You have taken substantive action to address market data quality issues. In particular you provided clear evidence that you have initiated work with Retailers to address data accuracy, for example concerning accessing meters and meter location.

You continue to have the largest proportion of developer services provided by self-lay providers (“**SLPs**”) in the industry. You have an excellent webpage dedicated to SLPs. The website explains the service connection process and provides all the relevant application forms, design guidance for new connections and makes it clear that an SLP can complete the work. The webpage is user friendly and easy to navigate, and has concise, informative content, clearly setting out the SLP process.

You have been performing well against Water UK Levels of Service metrics and have worked hard to engage your developer customers. You provided an excellent response to our question around engagement with developers, clearly describing the channels, frequency and topics covered by the engagement. You explained how feedback gathered has been used to improve services and inform the development of the market. You use a variety of platforms to engage with developers, including focus groups and developer days which you have used as an opportunity to gain insight from developers. Thank you for hosting us at your events with developers, SLPs and NAVs in October last year, where you held an open discussion on your charges from 2020 and the Codes for Adoption Agreements, the areas of improvement that would matter most to customers and the other priority areas of your work on developer services.

The recently published bulk supply tariff document for 2020/21 is a significant improvement on the 2019/20 version of this document, providing more detail around how the tariffs were derived.

Areas that require attention

We assessed that you could further simplify its wholesaler policies and tariff structures. Given the leadership you demonstrate in supporting industry governance, including the work it led to implement the gap and vacancy incentive schemes, we would strongly encourage you to take a leading role in working with the rest of the

sector to explore the feasibility of greater harmonisation of wholesaler policies and tariff structures.

Whilst you performed strongly against our assessment of alternative credit and payment terms, with clear evidence that you have offered a number of Schedule 3 agreements to Retailers, our assessment would have been more positive had there been evidence that you have tailored your offerings to reflect the characteristics of individual Retailers. 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 arrangements that are specific to the Retailer in question, providing that any difference can be objectively justified. We would encourage you to continue to develop your positive approach in this 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 recognise that there are few NAV sites in your area and you are considering how to address this. We were pleased to see that you have a NAV specific area on your website but, when we reviewed it in late 2019, we were unable to readily find some key information such as how to become a NAV with you. We note that you did not provide details of your engagement approach for NAVs. Despite this, we received feedback from a NAV stakeholder that highlighted you as being one of the few companies that is responsive to the issues raised by NAVs and have committed to solutions.

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