

# THE WATER REPORT

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## Fast forward

**An SO function and more markets: Colin Skellett sets out Wessex's PR19 plan to rapidly respond to monopoly privilege criticism.**

### COMPETITION WATCH

■ The Open Water partners reflect on the first year of business retail choice – and where the market goes next.

■ The practicals are working and problems are addressable – CC Water's verdict on year one.

■ Price protection set to stay after 2020.

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# FIRST IMPRESSIONS



The Open Water partners reflect on market performance in year one and look set to cajole it to achieve more in year two.

**T**he business retail market's first birthday passed fairly quietly on 1 April 2018 with little public fanfare. This perhaps reflects the fact that the time for celebrating and taking pride in the successful on-time delivery of the market has now largely passed and, one year on, it's time to focus on performance. So how is that performance looking?

MOSL has been the main source of data over the past 12 months, which has supported the natural inclination of commentators to focus on switching patterns. The box (p29) offers a top line summary of what this data tells us. Perhaps the key figure is that 123,000 supply points had changed retailer as the full year completed. But switching isn't the be all and end all; there are many other factors to consider, prominent among which is the customer experience. Consumer Council for Water research suggests large businesses have a good level of knowledge of, and engagement with, the water options open to them, while SME awareness of the market stood at just 38% as of January. Meanwhile complaint rates have soared (see report, p30). In discus-

sions between wholesalers and retailers, it is probably fair to say market data quality has been the dominant theme.

Owat has been monitoring the market since the get-go, and its end of year report, due in summer, will throw more light on all the issues. But in the round, most observers would no doubt agree that the market has had a more than respectable start but inevitably there is room for improvement. The key question now, alongside taking stock of what's happened in the past year, is what should be done with the market? It basically works and customers can switch, so should it be left to tick along under its own steam, or proactively encouraged to develop, or actually driven forward for customer benefit? Does performance to date suggest any particular course of action? These are questions for DEFRA, Ofwat and MOSL, who collaborated together and with the industry to get the market off the ground in the first place.

Sarah Hendry, director of water and floods at DEFRA, is ambitious for improvement. She lists as priority actions for year two: "We need to see issues resolved and more done to build



awareness, particularly at the SME and micro business end of the market. We'd also like to see more movement in water efficiency, and retailers coming forward to offer customers excellent services in that area to help bring down overall water consumption." She is mindful too that the political context has changed since last April, which has implications for market evaluation: "It is incumbent on us all to ensure the market is functioning for customers and the legitimacy climate underlines that 'good enough' is no longer good enough. Everyone expects teething issues when a market first opens. It's been a year now, and time to move on from these, to move from good to great (to borrow a turn of phrase from Ofwat colleagues)."

For Ofwat's part, Emma Kelso, senior director of customers and casework, says the regulator wants to see "an active, flourishing market" where customers are able to freely engage and to be "confident that if things go wrong companies will put them right or we will step in". Meanwhile MOSL chief executive Chris Scoggins sees the market operator's role as one of "enabling a competitive market to flourish through being proactive in iden-

tifying and helping to resolve market issues, and leveraging our central position to drive better market outcomes."

It is not clear at this stage what level of intervention these ambitions will necessitate, but there seems to be an intention on the part of the Open Water partners to keep close to the market and encourage it on rather than to stand back and let it take its own course. So what areas of focus might we expect to see in year two?

#### Market machinery

The partners agree that what Kelso calls the "market machinery" needs to improve. "It needs to be efficient and slick," she asserts. Data quality falls under this banner. "When customers are trying to get a quote, or retailers are trying to register a customer, there needs to be minimal hassle." She explains this would have multiple benefits, including supporting access to the market for customers currently deemed unattractive by retailers, and reducing cost to serve thereby freeing up retailer resources to offer larger price discounts or service investments, without a margin increase (Ofwat is looking at the margin as part of its Retail Exit Code review, but will need to be convinced of a reason to alter its current position). Hendry adds: "There are already robust protections in place for customers in the business market, but we know from CC Water complaints data and other research that not all customers are having a smooth ride. This needs to be addressed."

Hendry believes the market is fundamentally equipped to tackle the issues: "The good news is that the right mechanisms are in place for this to happen, and we've already seen them working. We obviously need to keep a close eye on this." Kelso says there is a role for individual wholesalers and retailers to step up more, but also "a role for the centre" too. Perhaps a good example is recent work to tackle unpaired SPIDs more effectively: a system change was proposed by United Utilities and recently was adopted through the Codes process across the board (see p31). Scoggins explains there is a programme of work going on in the data quality space, including though the data quality improvement plan MOSL will publish next month; the market audit; and the market performance operations plan (both due in June). While data remains the responsibility of trading parties, he says MOSL can "shine a light on it" and encourage progress. Alongside unpaired SPIDs, Scoggins says priority items are long term unread meters and individual data items such as missing yearly volume estimates.

Also in the 'market machinery' camp are actions to smooth the wholesale/retail interface. From MOSL's side, bilateral operations are top of the bill here. Its Digital Strategy Committee has been gathering evidence and considering resolution options, and is working towards making a recommendation. In Ofwat's remit are wholesale/retail credit arrangements; these have caused difficulty for some small suppliers in particular, and are now under review. Kelso explains that while level playing field issues have hardly surfaced in year one, the credit review is looking at whether independent retailers and associated retailers face different credit situations and if so "is that difference undue and unfair"?

In the wider sense, Scoggins explains MOSL is "continually looking for efficiencies" to deliver better value for money while making the market machinery work better. A recent initiative





Sarah Hendry



Emma Kelso



Chris Scoggins

has been to launch a Medium Volume Interface for retailers who want more than the manual processes offered by the Low Volume Interface but not all the functionality of the High Volume Interface. Coming soon are guided workflows in the Low Volume Interface to make it more user friendly, and time-saving proactive notifications so retailers are alerted when they need to take an action, rather than having to continually keep an eye on CMOS. And next year, MOSL plans to replace CMOS' reporting suite with a user generated reporting tool which will be easier to use.

#### Customer engagement

Kelso takes an upbeat view of customer engagement with the market. Ofwat calculates 120,000 customers have engaged in some way, and that the 123,000 supply point switches equate to around 35,000 customers changing retailer. On top of that, the customer insight survey Ofwat has commissioned as part of its monitoring work suggests around 10,000 customers have renegotiated with their existing suppliers. She says this is "quite a rapid start" and that these customers are reporting benefits on price, service and consumption. Moreover, that self supply is proving attractive in a "much bigger way than we expected".

That said there's no getting away from the fact that awareness and engagement at the smaller end of the market could be substantially better. Kelso argues that retailers and third party intermediaries need to play a "massive role" in addressing this. In light of the immaturity of the market and particularly SME engagement levels, Ofwat has said in its Retail Exit Code consultation (see p25) that it is minded to keep price and service protections in place for customers after 2020.

The Open Water parties seem to agree, also, that the market is far from fulfilling its potential yet on supporting water efficiency. Kelso says some retailers are pushing water efficiency offerings as unique selling points, but there is "ample room for improvement" – particularly as Ofwat's insight survey suggested water efficiency really matters to customers and comparing uptake with desire reveals "quite a gap".

Water efficiency is firmly on DEFRA's radar too. Resilience is one of its two key priorities for the sector. Hendry says: "A key policy outcome we want to see from opening the new market is improvements in water efficiency...It's too early to tell how successful the market will be in this area. It's normal that early switching activity was driven by opportunities for immediate bill savings and large / multi-site customers reaping benefits of consolidated services and billing.

"We also welcome the work the Environment Agency has been doing to bring retailers into the National Drought Group and make sure everyone with a role to play in drought and the on-going dry weather situations is completely clear on what that role is, and where responsibilities lie, for example between wholesalers and retailers."

#### Continued collaboration

Market opening was achieved on time in part at least on the back of the collaboration between the industry and the Open Water partners. This seems to have endured in the live environment; publicly at least, there has been little in the way of finger-pointing for problems, and stakeholders are continuing to work together to refine and rework problem areas.

Hendry comments: "Collaboration between Open Water partners continues and is effective. DEFRA is still very much part of the market's senior management group, as well as working closely with Ofwat and MOSL colleagues on day-to-day market business as part of Ofwat's market outcomes and enforcement programme. Ministers have been clear on the need to learn the lessons from business market opening, and we see this very much as our role – we need to stay close to the issues, and are doing so."

She adds for DEFRA's part: "We see our role as continuing to watch closely, to understand and learn from what is happening. This will enable us to take action with our partners when and if that might be needed. One area for example is on price transparency, where we welcome the work Ofwat already has underway. There is more than ever a need to work closely together as an industry to tackle these collective challenges." **TWR**