



Domestic Competition in the Water Sector

Tuesday 26 April 2016, Committee Room 19, House of Commons

The All Party Parliamentary Water Group's April meeting discussed the topic of domestic competition in the water sector.

In November the Treasury outlined plans to introduce domestic competition by 2020. The plan was part of a wider announcement on introducing competition for several markets with the aim of *"bringing down bills for families and firms while creating the conditions for businesses to thrive."*

Building on the success of the Group's January meeting on preparing for retail competition in the water sector, this meeting discussed the prospects for extending competition to household water customers and the challenges and opportunities for the sector that competition presents.

The meeting was chaired by Baroness McIntosh of Pickering and the guest speakers were:

- **Iain McGuffog**, Director Strategy and Planning, Ofwat
- **Tony Smith**, Chief Executive, CCWater
- **Tony Thornton**, Head of Transformation, Gemserv

Opening the session, **Iain McGuffog** said that Ofwat were approaching the process with an open mind. He said that they had been consulting widely and it was good to see organisations already contributing to the process. He said that Ofwat would publish their draft report in July and then finalise the review by September. The review would inform Government decisions.

He noted that there had been large changes in the past five years regards how companies engaged with their customers. However, the process of introducing competition meant that even more engagement with customers was required. He said that in introducing domestic competition, a balance needed to be struck between these costs and the benefits.

He also outlined some of the customer research Ofwat had been undertaking and said that there was one question which was crucial to the review: do we feel comfortable that water is the only utility sector with no choice of supplier. He said that customers would expect an answer to this question and it was one that the Government and other stakeholders would need to consider.

Following on from Iain, **Tony Smith** welcomed competition as long as it was done in the *"right way,"* which he argued was as long as it was a *"customer oriented decision."* He said that CC Water were carrying out qualitative and quantitative research on the views of customers and were also looking at related policy issues.

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Reporting on their initial findings, he said that it appeared that the majority of customers were in favour of competition but in the expectation of price reductions. He added that many customers were surprised by the size of the potential bill reductions available from the retail bill, which is about 10% of the total bill, and the potential reduction in prices might not be seen as enough by many customers. He suggested that this might limit customer switching and their engagement with the market.

He added that Ofwat's business case must look at benefits for customers in the short term and long term benefits in efficiencies. He also said that there were important questions that still needed answering, including on whether competition would result in a changing approach on metering and social tariffs.

He said that another question that needed answering was about timing and whether it was best to introduce it at the same time as retail competition for non household customers and what the consequences of this will be. In conclusion, he said that he trusted that the decision would be based on the importance of the customer.

The final speaker, **Tony Thornton** provided the perspective from the energy industry. He covered five areas: 2020 delivery, and the need for robust independent governance and assurance methods; employee competencies and how competition will require new skills sets; that interoperability is essential; how competition has driven out costs in the energy sector; and the challenges of debt management.

He said that there would be many benefits to the introduction of competition and that customers would switch their suppliers more frequently. He spoke on whether the aim of implementation by 2020 was achievable. He added that competition should start with what it is trying to achieve and needs good governance and leadership.

After the opening statements, **Baroness McIntosh** asked whether there would be issues with the introduction of domestic competition specifically for rural areas. **Tony Thornton** said that pricing may be an issue but this would be more likely to happen by payment type rather than geographical area. **Tony Smith** added CCWater was concerned by geographic de-averaging but that there was no reason why domestic retail competition should lead to this.

Iain McGuffog argued that there needed to be a framework that was easy to understand. He disagreed that rural areas were most at risk as lower metering density would not make a huge difference to overall costs. He said that it would be important to look at the distributional impact of bad debt. He added that Ofwat will consider the rural dimension and ensure benefits overall outweigh any disadvantages.

The debate was then opened to the floor. A question was asked by a Peer about how much interaction water customers had with their customers. He also asked if there was any other reason for introducing domestic competition except for price issues.

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Water companies have improved their interaction with customers in recent years in general, **Tony Smith** argued but they still had work to do to improve on this. **Iain McGuffog** said that the regulatory framework needed to be flexible and maintained that Ofwat expected companies to engage with their customers on an ongoing basis rather than just every five years. He observed that customers found it difficult to examine whether they are getting value for money without a choice of supply. He added that there could be a case for a national framework for a household meter market.

Tony Thornton said that in the gas and electricity sector over 70% of households had switched suppliers. He said that in other sectors the introduction of competition had led to a change in the manner in which companies engage with customers. Although it was hard to compare the two sectors, he said that it would drive innovation and lead to better contacts with customers. He added that competition could drive a segmented approach between different customers and how they wanted to be contacted. He observed that technology was different for each generation, with different ages wanting to engage through smart phones and apps.

Co-Chair of the APPWG, Angela Smith said that Ofwat were taking on too many reforms at once and that there was a risk that with a tight timeframe, the regulator might poorly implement reform in either domestic competition, abstraction reform or retail competition. She asked whether the Government was being unrealistic with their aims.

Iain McGuffog said that reform was phased in other sectors and a gradual approach could be the most feasible. He said that while the exact time frame of implementation was for Government to decide, it was important for Government policy to set out a clear direction of travel. He added that Ofwat's analysis will not prejudice when domestic competition should start.

Tony Thornton said that there were always risks but with good planning risks can be mitigated. He said that a phased transition would mitigate the risks but warned that some of the risks would be hard to deal with. He pointed out that effective governance and regulation must also be put in place.

Tony Smith agreed that there were clearly risks with implementing competition if this was not well planned. He asked how quickly customers would take up the opportunities presented by competition.

Finally, questions were asked about whether domestic competition would lead to more players in the market and whether the changes would lead to more administrative burdens for the customer.

Tony Smith said that greater customer segmentation was an opportunity and added that the policy issues must be addressed. He agreed that concerns that some customers and businesses have over the introduction of a 'middle man' retailer in the system in the event of supply problems must be addressed. **Tony Thornton** said that these were important questions that needed to be dealt with. **Iain McGuffog** highlighted choice was important as was the need, ultimately, for stakeholders to have their say on the issue.

The meeting concluded with an agreement to return to this subject when Ofwat's analysis has been published.

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