



Preparing for retail competition in the water sector

Tuesday 19th January 2016

Committee Room 15, House of Commons

The All Party Parliamentary Water Group held its first meeting of 2016 on preparing for retail competition in the water sector. From April 2017, non-household water customers in England will be able to choose who supplies their water for the first time. There is still a great deal of work to be done to prepare the industry and customers for the introduction of competition.

The aim of the meeting was to discuss the steps taken so far, what the next steps need to be and what the industry, customers and wider stakeholders want to achieve as we move towards retail competition.

Chair: Baroness McIntosh of Pickering

Guest speakers:

- Ben Jeffs, Chief Executive, Market Operator Services Limited (MOSL)
- Ken McRae, Chief Operating Officer, Genserv
- Alan Sutherland, Chief Executive, Water Industry Commission for Scotland

Opening the session, the Chair pointed out that April 2017 was not too far away and said that she hopes that successfully implementing retail competition will lead to the introduction of competition in the sector more broadly.

The first speaker, **Ben Jeffs** set out the aims of MOSL and the progress they had so far made in preparing the sector for retail competition. He argued that MOSL were on track and on budget and that from his perspective they were well positioned this year to continue progressing their multi-phased plan.

Ken McRae argued that water companies were in a good position for the start of retail competition and had demonstrated a strong commitment to it being implemented smoothly. He maintained that progress now required an approach that was driven by *“pragmatism rather than protectionism.”* However, he said that it must be ensured that all water companies are treated equally and that profit margins must be improved in order to encourage investment. He reflected that in the process of implementing retail competition, customers views should always be the priority for companies.

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The final speaker was **Alan Sutherland**, who provided an overview of the implementation of retail competition in Scotland. He said that retail customers had saved money from their water bills not because of a fall in prices but due to the reduction in water use. He argued that to successfully implement competition, three different parts were needed:

1. Preparation for competition
2. Assistance to companies in explaining what need to be prepared
3. Smaller issues around level playing field and margins

He said that preparation for competition was in good shape but that there must be more assistance to water companies. However, he was most concerned about the third point, the question of ensuring a level playing field, arguing that there must be clear rules set out and a clear process in place when there is an issue. He added that issues around a level playing field and margins must be resolved before competition is implemented.

Following their opening remarks, **the Chair** asked why the process was implemented in the non-domestic sector first. All three speakers agreed that the retail sector was a good starting point as it was more straightforward to implement. **Ken McRae** argued that large companies would not just switch water supplier on the basis of price but would also look at other aspects such as quality of service and additional services offered.

The Shadow Water Minister, Alex Cunningham said that he was keen to understand the water industry's view and expressed scepticism that the introduction of competition will lead to reduced water use or cost savings for customers. He also said that the process was not as transparent as it should be and said he had doubts about how engaged water companies have been in making the new system work well for customers. **Ben Jeffs** and **Alan Sutherland** said that they had been very impressed by the engagement shown by water companies in the process. However, **Alan Sutherland** said he had some concerns about the readiness of water companies to separate their wholesale and retail business. He added that the cultural change required will be hard for them to manage. **Ken McRae** warned that there would be companies that would be casualties due to the process, adding that the market would need time to calm down.

Lord Redesdale spoke on the effect that retail competition could have on the amount of companies in the water sector. **Alan Sutherland** reiterated that if there was not a shift in culture from water companies then they would fail. **Ken McRae** said that for the process to be beneficial the market must be ready with good profit margins to encourage new entrants into the market. **Lord Stoddart** argued that this process seemed like a large and complicated reorganisation for minor benefits. He also asked whether anyone had considered the views of the employees of the companies. **Ben Jeffs** agreed about engaging staff, saying that MOSL have started to regularly survey the readiness of companies to participate in the market and companies recognise the need to be doing more on this. He went on to say that it is intended that MOSL will start to publish the outcomes of these surveys around Easter.

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There was also a discussion around the consequences for wholesalers if there was a large reduction in demand and on the impact it would have on opening competition up to the domestic market.

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