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Retail Household Competition

Comments from the Thames Water Customer Challenge Group



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Some comments from the Thames Water Customer Challenge Group on the current consultation

The Thames Water Customer Challenge Group (CCG) has followed the progress of Ofwat's research into the possibility of competition being introduced into the retail household market with great interest and would offer these comments to be considered as part of the debate.

The CCG believes that these are profound reforms, and pressing ahead with them should only occur if there is unambiguous and realisable benefit to the vast majority of customers, across the whole spectrum, and also – crucially - an absence of harm, especially to the vulnerable. While acknowledging Ofwat's steer that there is an almost intuitive sense that customers view competition in the retail water market as a good thing in and of itself, the CCG is not as yet convinced that the data produced thus far and the models considered indisputably prove the case for reform, particularly where vulnerability and equality issues are considered.

Considering some specifics around the data, the CCG notes that while a majority of customers said they would welcome competition, they did so from the standpoint of much higher expectations of financial benefit and indeed the research suggests that “customers were disappointed to discover that price savings from a competitive market... could be as low as £1-£5 per year. They see little point in switching for this amount...”. Further questioning elicited the suggestion that 25% savings would be needed to entice them to change. The modelling that Ofwat has done and the assumptions that have been made do not suggest a 25% savings figure (or anything approaching it) is attainable and national data suggests that on average, household retail activity represents approximately 10% of the total average bill of £380. So only £38 can be subject to reduction and c25% of that would be less than £10 and may well also represent an optimistic view.

As a result the CCG believes there would be real merit in testing further the sensitivities around price reduction. Creating a market where no one is motivated to switch and where the cost base may rise to enable competition by somewhere between £200m and £400m does not fully suggest that there is unambiguous benefit for the market and those in it and that while a competitive market may be an attractive proposition, an inactive albeit competitive market may be less appealing.

The CCG feels, too, that the number and type of vulnerable customers questioned was not perhaps representative of the cross section of such customers we would wish to see engaged in such an important debate, with a very limited number of medical needs interviews and apparently none associated with faith. We would feel as a result that deeper equality analysis should be undertaken even at this early stage of debate. Experience in the energy sector and recent research from Ofgem would suggest, too, that lower income households, the young, and renters in social housing have less propensity to switch and are more likely to remain on standard variable tariffs. It is therefore hard to see how these groups would derive benefit and the CCG might argue therefore that a much greater focus should be put on understanding how such groups might not be harmed by the changes (or, more positively) even gain benefit, before decisions are taken.

In addition, there are some facets of the water market that make it distinct from the energy sector. Most particularly there is the fact that water customers will never be disconnected and that pre payment meters are not used as they are in the energy sector. The increasingly widespread introduction of metering also adds an important dynamic to this debate, which does not seem to have been considered thus far.

The CCG believes very strongly that it would make considerable sense for any proposed reforms to be delayed or deferred until Non Household Retail competition is up and running and a proper assessment can be done of the propensity to switch in the water market given the way retail and wholesale are structured, how the market develops post liberalisation and how processes work between water companies and downstream entities of whatever sort. It would seem somewhat contrarian to ignore such potential lessons.

In conclusion, although the CCG welcomes the debate and notes the detailed work that has taken place, it is not assured that its benchmark of realisable benefit (and an absence of harm) across the customer base has been indisputably proven.

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