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Ofwat
Household retail project

By email to:

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Consultation on the terms of reference for the Review of household retail markets in the water and wastewater sector

Severn Trent is supportive of the introduction of competition where it benefits customers and the environment. We welcome Ofwat's approach to its review of the potential for household retail competition and the comprehensive scope of work set out in the terms of reference.

We recognise there will be uncertainties in the analysis (such as the scope for dynamic efficiencies and the impacts of innovation) and we welcome Ofwat's commitment to transparency throughout the process. There has been public criticism at times of the energy market over the disclosure of the underlying assumptions and calculations and whether policy choices are in the public interest. Maintaining a high degree of transparency throughout would avoid similar issues arising in any decisions made on household water retailing.

Considerations on whether to introduce a household retail market are a matter for government and Ofwat will need to work with government to agree the definition of retail. However the details on how to implement the policy choice made are a matter for Ofwat. It is therefore important the work focuses on evidence to inform the policy decision on whether it would be beneficial after having analysed various high-level options. However, Ofwat should retain discretion to alter the design of the market once some of the nuances of water issues are explored in more detail later in the process.

There are specific issues relating to household water retailing that are different to other sectors. Many of these factors were not relevant to the non-household water retail market and the policy and customer impacts would need to be thoroughly understood:

- different levels of metering across the country;
- wide ranges of wholesale tariff available to customers;
- protections in law to prevent disconnection of household customers;
- the needs of certain vulnerable customer groups (e.g., dialysis patients) from the water service; and
- the presence of social tariffs introduced in recent years.

These are complex issues and would be important factors in shaping the form and detail of a market that may emerge. We consider it important to consult thoroughly with customer groups affected before reaching a conclusion on how the market should work. The timeline in the scoping document set aside for stakeholder engagement (July – August 2016) is relatively limited and should focus on the question of whether household retail should be introduced, rather than specifying a preferred market model or detail on the market design.

We look forward to contributing towards the call for evidence due for closing by 17 February 2016, noting that the issues set out above will take longer to fully explore. We would be happy to discuss further with you as we work on these important policy points.

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Yours faithfully,



Dr Tony Ballance
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