



Our Ref
Your Ref

email simon.bennett@bristolwater.co.uk
Direct Line 0117 934 2967

Ofwat - Wholesaler Performance CFI
7 Hill Street
Birmingham
B5 4UA
By email: wholesaler.CFI@ofwat.gsi.gov.uk

5 December 2018

Dear Ofwat,

Call for Inputs: Strengthening Wholesaler Performance and Service in the Business Retail Market

Thank you for the opportunity to respond to this Call for Inputs (CFI) review and to address some of the issues that are currently impacting on wholesaler performance across the industry. It is critical for our retailers' customers and the successful operation of the retail market that we understand and address the root causes of the dissatisfaction discussed in the review paper. We are proud of our performance to date in the market, treating retailers as individuals with needs, and as valued partners working together to provide an excellent experience to customers. Our performance is illustrated in the MPS statistics shown in the Call for Inputs, but also through the strength of relationship we have built with a wide range of retailers.

We are pleased that the CFI has recognised the role of the Retail Wholesale Group (RWG), which we have played a leading role in establishing. Our vision is for market participants to come together to develop solutions, then for this to be reflected through the Market Operator Services Ltd. (MOSL) and Ofwat's role in overseeing the success of the market. We take personal ownership of some of the actions required to make sure the market works for customers, in particular on better data provision and metering and water efficiency services.

Good customer service and experience is the key to a successful market, therefore we are pleased that the consultation considers incentives for retailer satisfaction with wholesalers. Whilst there are challenges in establishing a suitable measure of retail performance, we support the development of a simple approach that can be accompanied by appropriate reputational and financial incentives.

We recognise that some retailers hold the view that there is a lack of effective reputational and financial incentives for wholesalers to deliver high quality services to the market. This is an area that is equally important to us and we welcome the intention of this review to complement the wide-range of industry led initiatives in progress to further improve the business retail market. Our retailer research to date has found that retailers quite often just want someone at the end of the phone who can resolve their particular issues and who have knowledge of their needs. We feel that our performance in the retail market to date reflects such an approach.

We are committed to working openly with all our retailers, to delivering on the promises we make and to ensuring the business retail market operates as effectively as it should do. Although we did

Bristol Water plc

Registered Office: Bridgwater Road, Bristol BS13 7AT
Tel: (0117) 9665881
Registered in England No. 2662226
www.bristolwater.co.uk

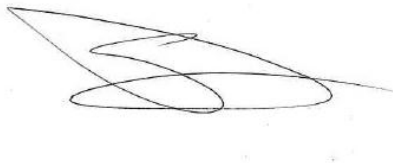


not introduce a bespoke wholesaler performance incentive mechanism (sometimes referred to as 'R-MeX' in the sector) as part of our PR19 business plan submission, we are supportive of a common performance commitment in this area, as long as it is a simple measure of retailer satisfaction with wholesaler performance, rather than a hybrid measure of performance, because of the lack of clarity and transparency associated with hybrid measures. The RWG are supporting and developing this metric and we have an active role on this group and in moving this framework forward. We however do not believe C-MeX provides a suitable framework, as we believe the hybrid nature of including complaints reflects a legacy transition from the Service Incentive Mechanism (SIM), which is not appropriate for a business to business relationship between wholesalers and retailers.

We support the development of a mix of reputational and financial incentives. If consensus on a suitable measure of retailer satisfaction can be met, and at a time when sufficient entry in the market means that there is comparative information, rather than reflecting the relationship with companies the wholesaler has exited to, then at this point we would welcome financial incentives. We expect that this is unlikely to be established in time for PR19. Therefore we would suggest in the meantime that MPS and OPS contain the potential for financial outperformance payments for good market performance, as well as underperformance penalties. If Ofwat wish to retain the potential for retailer satisfaction metrics to emerge, we would be happy for a mechanism whereby Ofwat were able to "carve out" an element of the value of D-MeX financial incentives and move this value into R-MeX during 2020-25, should criteria on a broad consensus on a measure of retailer satisfaction and the level of regional market concentration be met

Our responses to the questions included in the Call for Inputs paper can be found overleaf. In the meantime, please do not hesitate to let me know if you have any immediate questions or if we can be of further assistance.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Simon Bennett', with a stylized flourish extending to the right.

Simon Bennett
Head of Wholesale Services
Bristol Water

Section 2 - Review of our analysis and engagement

A. Do you have any additional evidence or views on current wholesaler performance?

Since 2001 all Bristol Water and Wessex Water customers have been jointly billed for their water and wastewater services. On 1 April 2017 business customers from the Bristol Water (and Wessex Water) supply area were transferred automatically to water2business, as part of the opening of the non-household retail market. Water2business was a company born out of a joint billing venture with Wessex Water; we were in a unique position of having an established and successful working relationship. Since its inception, we have been confident that our business customers will receive the same standards of service that they are used to from Bristol Water and Wessex Water. Our data quality when entering the retail market was therefore better than most due to our billing separation in 2001. This has had a positive impact on our performance.

For some wholesalers the ability to put ideas into practise may take longer due to the nature and size of their organisations, whereas we are at Bristol Water a small, agile and local company. Day to day engagement with retailers takes place through a dedicated wholesale service team with a dedicated account manager with a direct line, email and access to our retailer portal to provide a continuous feedback avenue. We also carry out regular surveys to measure our retailer's perception on the service we provide. Whilst we do very much care about the reputational issues around performance, we also care about the customer (end-user), so our decisions are customer-focused in the way our company operates, irrespective of the market relationship. These considerations both incentivise us and allow us to respond to the changing needs of our retailers and make changes quicker, hence our performance in the retail market so far. As noted in the CFI paper, we are presently for example a top performer in the Market Performance Standards (MPS) in terms of average task completion rates. MOSL data on MPS and Operational Performance Standards (OPS) performance confirms our consistently high performance since the market opening. MPS and OPS data for the first six months of 2018-19 also confirms that we are rank well and have improved our timeliness and completion rate, which indicates that over the year our performance is in the upper quartile range.

	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sept-18
OPS Bristol Water (Pass Percentage)	91.4%	97.6%	97.6%	93.8%	99.3%	99.1%
OPS Comparative Position in the Market for that month	7 th	5 th	5 th	9 th	3 rd	1 st
MPS Comparative position in the market for the month	3 rd	3 rd	3 rd	3 rd	4 th	4 th

Our performance to date is a direct result of our continuous and tailored engagement strategy that has been developed with each of our retailers, in line with their individual needs and requirements. This has been followed in order to improve upon our own performance and the services we offer to our retailers more generally. We have sent five surveys to the retailers operating in our supply area to date; three around on-going business topics with a focus on continuous improvement (using an online survey tool) and two with retailer account managers (via email).

On the email surveys sent to account managers, one was sent after the occurrence of a major incident, which sought feedback on our response and communications before, during and after the incident and the other was sent on our PR19 draft business plan. We had found that, whilst PR19 had been an important segment of the retailers' discussions with us, specific engagement on the topic across the sector had been slow. Following the survey, the feedback we received was positive; retailers signified that they believed Bristol Water to be performing above other wholesalers. We

continue to be happy to share our approach and engage with other wholesalers, whether through RWG or bilaterally, as this is an area of industry concern to support effective retail competition. Below are some statements which reflect the feedback we received from our retailers on our PR19 plan:

Feedback from Retailers

“Bristol continue to be the most innovative wholesaler and their PR19 plans reflect this” - Waterscan

“Bristol Water’s Portal is already one of the most user friendly, so plans to enhance this further are a great idea” - The Water Retail Company

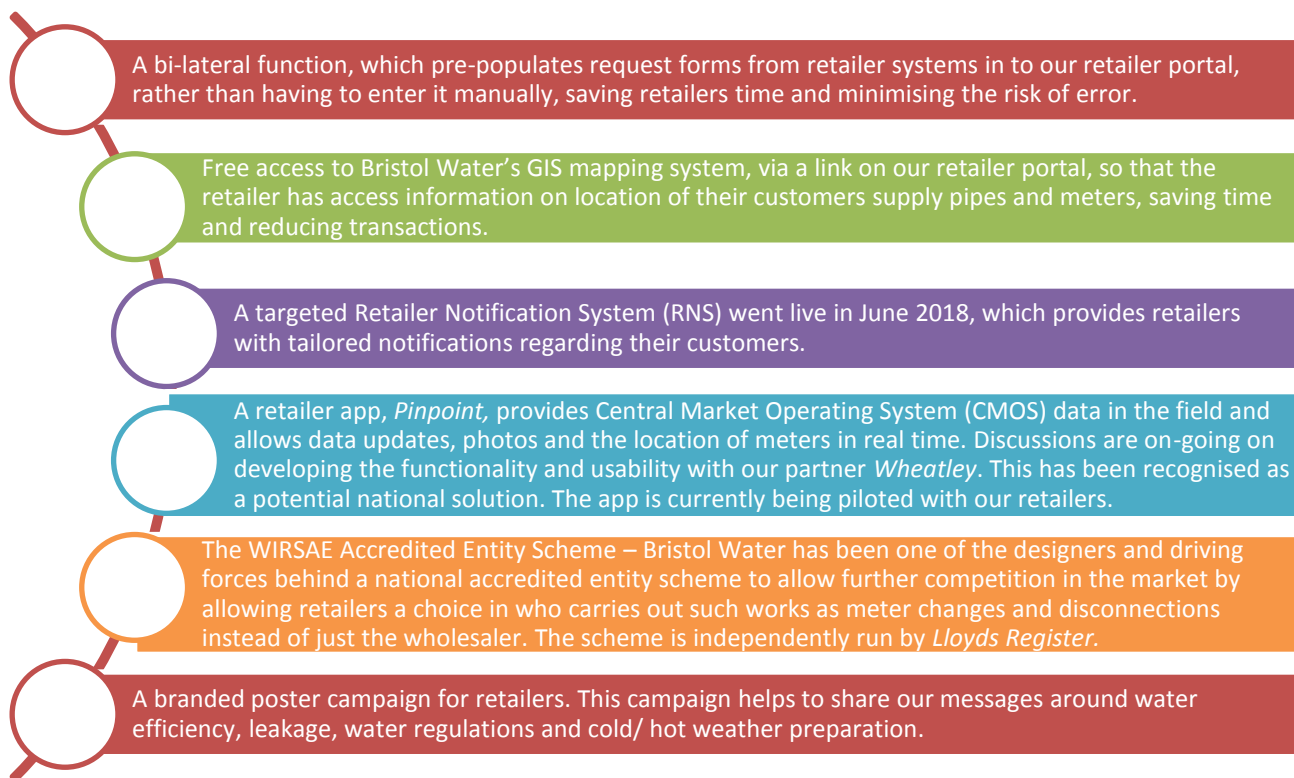
“We think your posters are a great idea and wish more wholesalers took a leaf out of you book” - First Business Water

We recognise that some of our retailers work across England and Scotland and are not able to attend multilateral meetings in Bristol. With this in mind our approach has been focused on meeting the retailers at their offices as well as at national events. Quarterly engagement visits are used to gain feedback on our service and how we can improve. The visits are also used as an opportunity to provide retailers with an update on our performance, market performance and comparative information and any company news, including our plans for 2020-25. Below is a summary timeline of our engagement with our retailers since the opening of the market.



- Improvements**
- A Bi-lateral comms started
 - B Start the Water Industry Accredited Entity Scheme (WIRSAE)
 - C Access to Digdat mapping service given to all retailers
 - D Retail Notification Service launched for retailers
 - E Pin point app

Receiving feedback from our retailers via account meetings, online or email surveys and forums has ensured we are able to adapt and improve the services we offer. We are making continuous improvements to the way we interact and communicate with our retailers and this ensures we are able to provide a consistently high level of customer service. Below is a list of innovations and improvements we have already delivered to enhance the customer experience to our retailers:



In conclusion, since the opening of the retail market, we have engaged extensively with the retailers we serve. We have received positive feedback on these services and despite being a top wholesaler performer in the market we are continually looking to stretch ourselves further. Whilst it is critical for our business customers and the successful operation of the retail market that we understand and address the root causes of the dissatisfaction discussed in the CFI review paper, we hope that our performance to date and examples of innovation listed above provide examples that are useful for the CFI. We believe our performance is built on good data, a personal relationship with retailers and their customers, and continued communication and innovation to improve our offering further.

Our work through the RWG has focussed on trying to encourage greater understanding between retailers and wholesalers and the sharing of good practise, which can lead to more consistent and efficient approaches. By leading the RWG, we are empowered to share our approach with other wholesalers, improve upon performance and service across the market, and which in turn provides retailers with a level of service that they have the right to expect and demand.

Section 3 – Working groups and initiatives

A. We have referred to a range of existing and planned work which may help to improve wholesaler service and performance. Do stakeholders think these initiatives will deliver sufficient outcomes within a reasonable timeframe? When responding please explain your answer.

In our preparations for the market opening in April 2017 we actively participated in the market design and development activities. Our commitment to the market has continued beyond April 2017. As the market matures and evolves we will continue to be an active participant in its development, contributing to market changes and improvements. We are committed to working with MOSL and other related parties to ensure the non-household market operates efficiently and effectively.

We regularly discuss the challenges facing the sector and often share good practice with many of the working groups identified in the CFI review, such as the Retailer Wholesaler Group (RWG) and the

Wholesale Interface Group (WIG). We are in fact leading on a number of the groups identified (we chair and lead the Digital Strategy Committee (DSC)) and we are taking a proactive approach to supporting the sector using these channels. We are supportive of the initiatives and are confident that they will deliver sufficient outcomes within a reasonable timeframe.

Whilst we recognise that improvements in the market are taking some time to materialise, this is a consequence of companies wanting to get things right first time. Indeed, our own experience so far of groups such as the RWG and the WIG is very positive and our involvement has led to our improved service to retailers and their customers.

We also sit on the Market Performance Committee (MPC), which was really designed to look at overall performance, suggest improvements and share examples of best practise. Due to other priorities in assisting the smooth development of the market since its inception, we recognise that these have not been areas of focus to date. However, the MPC like the RWG relies on individual's time and efforts, which inevitably leads to shifting priorities as the work involved will always be somewhat ad hoc in its outlook. As the retail business market is still developing, this is not surprising. We would like therefore to see MOSL do more to support these groups in a secretarial way, and to provide further financial support that reflects the need for this to be an area of focus. MOSL also needs to manage the Data Improvement Plans more effectively, to ensure the improvements are made across the market.

B. Have we missed out any other significant ongoing or scheduled work that could drive improvements in wholesaler performance?

We note that the Water Industry Registration Scheme Accredited Entity (WIRSAE) was not referenced in the CFI paper. The WIRSAE, which is administered by Lloyds Register, manages the accredited entity scheme for the market and is already driving improvements. There are also a number of regional groups such as the Northern Hub and the SW Forum, which are all playing their part in ensuring the market delivers for retailers and customers.

Section 4 – Key issues impacting on wholesaler service and performance

A. Do stakeholders agree that we have identified the key issues that need to be prioritised and addressed? Are there any other issues that should also be considered as part of our analysis?

On balance, we feel that the reputational incentives for us to improve upon our performance are already being captured by the regulatory framework that is in place. We believe we have a part to play in enabling retailers to widen and improve upon their service offering to customers, as the market matures and issues around data and margin are resolved. We are committed to working with our retailers to provide the necessary support as these services evolve. We consider that Ofwat should allow the current initiatives to be delivered before considering new action as a result of the CFI. There is for example a consultation on-going on OPS charging, so it is appropriate to wait for the results and findings to materialise before considering additional incentives.

We note that in the PR19 methodology it was indicated that if an incentive mechanism for improving wholesaler performance were to be introduced that this would be done by the time of the draft determinations. If this route is taken we would ask that information be provided to companies as early as possible. Up front clarity on regulatory frameworks, where appropriate, reduces regulatory burdens and improves transparency for all. The main priority would appear to be a wider measure of retailer satisfaction, as this would supplement OPS and MPS incentives. We think this is something Ofwat can usefully explore further.

Our views are elaborated on further in response to the other questions included in this section.

Section 4.1 – Inadequate metrics to measure wholesaler performance and service

A. We have suggested a number of ways that the MPF could be updated to improve the way that wholesaler performance is measured and incentivised. Which of these suggestions do stakeholders believe would be most effective and why?

As mentioned above, we feel that appropriate reputational incentives already exist.

It is far too early to review the SLAs in the Codes; the market data via the Ops reporting should be able to provide average SLAs to see whether they are appropriate at the moment. In our case we were used to slightly tighter SLAs with our billing company, so to meet the Codes, SLAs has not been a major problem. For data query and corrections requests this should be bi-lateral, as our experience so far has shown that retailers may not respond in a suitable and appropriate timescale. A complex framework of measuring wholesaler and retailer performance may emerge. Instead, we would recommend using OPS and MPS incentives, together with MOSL operating more qualitative assessments of individual retailer and wholesaler performance as part of their role.

The RWG is trying to help standardise policies wherever possible but the group cannot force any wholesaler or retailer to comply. We would be happy to see the introduction of an R-MeX type performance commitment, and that is why we are supporting the RWG on this piece of work. It is important that the work of RWG continues to be seen as developing “good” rather than “best” practice, to allow for innovation as the market develops. We believe that the incentive will require a period of time as a reputational incentive, in order for confidence to be shown in it. It should however be designed to become a financial incentive, once consensus over what the best measure is has been achieved. However, this will be difficult to implement whilst regional market concentration remains linked to organisations wholesalers have exited to. Should these criteria be met, we would support Ofwat including within PR19 the potential for companies to “carve out” a financial value from D-MeX and apply this value to R-MeX during 2020-25, subject to further consultation on the incentive design.

As for what Ofwat can do, we would like to see the regulator promote the good practice that is being adopted, praise good performers and ask those poor performers why and when will things improve. Primarily we feel MOSL should play the main role in this regard, with Ofwat playing a role in enforcement against poor performers and providing the Board of MOSL with opinion on its performance with regard to improving market performance. We feel Ofwat have an important role to play in this regard and we would be happy to offer case studies and further information on how the innovations outlined in response to question 2A could be adopted across the sector.

B. Are there other areas of performance and interaction that should be considered by the OPSWG or as part of the next MPS review?

Any further areas of monitoring of performance or metrics for wholesalers to measure need to consider the point at which the regulatory burden of reporting would then hinder the development of the market. We feel that it is appropriate at this stage to therefore await the consultation outcomes for Ops charging and allow the MPC time to monitor the market and trading parties’ performance once any new proposals are adopted. We believe it is also too early to carry out another MPS review, but if a review does take place, it should look at the feasibility of introducing outperformance payments for the top performing companies, in addition to the current system of underperformance payments. In advance of developing R-MeX, this is the most appropriate way of balancing positive as well as negative financial incentives on wholesalers.

C. Aside from updates to the MPF, are there any other ways that the codes could be changed to better measure wholesaler performance?

Though the market codes dictate the level and quality of service expected from a wholesaler, our wholesale team continue to innovate and invest in our services and give a tailored and excellent service that goes beyond what the market has officially dictated. Wherever possible we should be looking to simplify the market codes; the codes should be reviewed in totality as the market has moved on and they were not written with the customer (end-user) in mind. Other than the introduction of an R-MeX performance commitment, the codes could therefore be amended to measure the end-user experience, which should cover both wholesalers and retailers.

Section 4.2 – Weak reputational incentives

A. Do you believe that sufficient progress is being made in reviewing and updating the MPF? If not, what more do you think should be done in the short and long term?

Yes, sufficient progress is being made. Retailers are represented on all these groups; the only negative feedback we have seen is from the Water Retail Council, who express different views to those expressed by retailers on the RWG or the MPC.

B. We invite views from stakeholders on how Ofwat, MOSL or any other parties could use performance data to strengthen reputational incentives for wholesalers to improve performance.

As noted above, Ofwat should promote the good practice that is being adopted, praise good performers and ask those poor performers why and when will things improve. Ofwat should do this through MOSL, to boost the role of the portfolio managers. We also recommend that MOSL provide secretarial support for industry groups such as the RWG. We believe that the relationship with our portfolio manager has contributed significantly to our performance, and boosting the resources of this at MOSL with accountability to Ofwat through the MOSL Board (as well as Ofwat challenging poor performers who do not improve) being the best way of strengthening performance, as well as being a reputational incentive. MOSL should also look at the use of Rectification plans, share good and best practice and work closely with their portfolio trading parties.

In addition, to further enhance the power of reputational incentives, it is necessary for performance information to be made available to customers through accessible channels. If R-MeX was introduced as a common performance commitment by Ofwat, this could then include the requirement for reporting by companies in their Annual Performance Reports. As noted above, we will need to consider at what point regional market concentration means that it will be appropriate to introduce financial incentives for R-MeX, and what approach to measuring retailer satisfaction with wholesalers will be appropriate. We are continuing to lead and support the RWG in this area.

In the meantime, including a standard approach to reporting and commenting on market performance in the Annual Performance Report will aid transparency and in turn, help customers. Such reports will build on and compliment the reported figures companies provide as part of the industry dashboard 'Discover Water'. Although this dashboard is at present good for comparable measures, it does not currently include retailer and wholesaler performance data in the retail market. Information on the MOSL website could be translated and presented on the Discover Water website, with the assistance of Water UK. There are two options that could be explored, either:

Water UK

- To add wholesaler performance in the business retail market to the Discover Water dashboard.

MOSL

- To introduce a website dashboard similar in design to Discover Water, to assist in presenting wholesaler performance in the business retail market .

Although the information published on MOSL is useful, it is not yet presented in a customer-friendly format. Both options would reduce the complexity of information that is presented on the MOSL website currently.

We already have a standard spreadsheet format for the publication of wholesale charges. Ofwat or MOSL may want to consider whether this can be turned into a published database of wholesale charges. Once this step has been completed, it would then be easier to consider whether retailers should, voluntarily or as a market requirement, publish typical prices for a defined set of example customers, by region.

Section 4.3 – Weak financial incentives

A. How can the process for redistributing surplus charges be improved to incentivise good wholesaler performance?

Surplus charges could be shared amongst the top five wholesalers, perhaps with a limitation of only rewarding those whose average MPS/OPS scores exceed a minimum threshold, say 95%.

B. Can the charging structure, as set out under the MPF, be improved? For example, are the charges for underperformance appropriate and is the cap set correctly? What can be done to incentivise the ongoing completion of tasks that remain outstanding beyond the final time parameter?

We feel that it is appropriate to wait for the consultation results for OPS charging first, before reviewing the charging further. We would however like to see no cap on OPS incentives and to continue the cap on MPS charges, as this cap protects the retailers more than wholesalers.

It is too early to see if the charges are correct but increasing the charges around the on-going completion of tasks would be an option.

C. We have outlined what a PR19 wholesaler performance incentive mechanism could look like:

I. Do stakeholders agree with the metrics that we have identified to include in a potential scheme?

Any new measure of wholesaler performance should only be introduced in order to incentivise improvements in services that our retailers prioritise. As the RWG are already working on this subject, we would suggest Ofwat work closely with them in this area. The RWG covers all trading parties (for those who choose to be involved) and it was their decision to choose what has colloquially become known in the sector as R-MeX as a project.

We would however like to note that we recently undertook extensive consultation as part of the development of our PR19 business plan. We undertook a wide range of methodologies to engage all our customers as part of an on-going process and to ensure a two-way dialogue was followed throughout. This included tailored engagement methods for our retailers to ensure that their voices were heard. Despite all the methods deployed, we did not encounter any appetite for a specific

performance commitment on a PR19 wholesaler performance financial incentive mechanism. As set out above, there are two reasons for this:

- a) Regional market concentration of retailers exited to; and
- b) A lack of consensus on a definition for R-MeX.

Rather than postponing to PR24, we recommend Ofwat consider a clause to allow “carve-out” from D-MeX incentive levels following consultation on incentives, that would include developers and retailers. This could be triggered if reputational incentives are not deemed sufficient and if the two criteria above are resolved.

II. If an incentive mechanism were introduced, are there any other data sets that could be considered as part of our assessment of wholesaler performance?

The performance commitments we proposed as part of our PR19 business plan were backed up by a comprehensive package of customer engagement activities. Although we could have proposed a wholesaler performance incentive mechanism at the time of the submission of our plan, we did not receive any clear indication from our customers that this was a priority for them. Any approach would need to be comparative, rather than from an individual company baseline, which drove our decision not to include any retailer satisfaction measure at this stage. Our preference would be a simple measure of retailer satisfaction, to go with other incentives such as OPS and MPS.

III. We have suggested that, should a scheme be introduced, performance payments and penalties would only be applicable to the best and poorest performers respectively? Do stakeholders agree?

We recognise that companies’ performance commitments can be an important tool to deliver higher service levels to customers. This should be both through financial and reputational ODIs and it is important that the regulatory framework provides the right incentives to companies to stretch their performance. An R-MeX performance commitment may initially only be based on a reputational performance metric, for the following reasons:

Reasons to adopt a reputational performance metric

1. The business retail market has not yet matured - a financial ODI could incentivise performance that hinders the development of the market.
2. There is a lack of historical or reliable.
3. There is no evidence of customer support for a financial ODI for wholesale performance in the business retail market data. Regional market concentration means the incentives may not support market development.
4. There is recognition that C-MeX and D-MeX needed pilot data and shadow reporting ahead of 'live' reporting to determine ODI performance. This would not be possible ahead of the introduction of an R-MeX or wholesaler performance incentive mechanism in time for PR19 performance reporting.

By introducing an R-MeX performance commitment initially on a reputational performance metric, these reasons should be overcome over time.

IV. We welcome views from stakeholders on where the revenue levels for performance payments and penalties should be set if a PR19 scheme was implemented.

Our preference is for a reputational ODI to apply initially. If a financial ODI were to be introduced, we believe an incentive regime similar to C-MeX and D-MeX is justified. This should be symmetrical over typical performance ranges, with a stronger downside for poor performance whilst retaining some further upside for exceptional performers. We would expect that symmetry could apply to current levels of upper quartile performance in order to boost performance.

The main challenge with R-MeX will be gaining consensus from retailers that they want to pay for this incentive, whilst retaining a positive incentive for good performers to improve further. In the absence of consensus on this, a reputational incentive is preferred. This consensus amongst retailers is likely to be limited by regional market concentration to retailers that have been exited to.

Therefore we feel that any financial outperformance payments and underperformance penalties, for the best and worst performers, could be based on a percentage of annual wholesaler-retailer services revenue. Given the timing, we do not think this can be introduced initially at PR19. However, we would be happy for the potential for this to be carved out of D-MeX incentive levels. This approach could allow for both retailer and developer satisfaction to be considered, reflecting the challenges with D-MeX on an event basis measure. We would welcome further development of D-MeX to reflect a wider survey of satisfaction with the range of informed market participants in their interactions with wholesalers.

Section 4.4 – Variance in wholesaler policy

A. Throughout section 4 we explore a number of ways that Ofwat or other parties could take action to incentivise improvements in wholesaler performance. We welcome feedback from stakeholders on these actions and any other potential actions we may not have considered.

From our interaction with retailers, we do not get any sense that a redress scheme (a “GSS payments” from wholesalers to retailers say for poor data and poor response) would be an appropriate incentive. This may risk acceptable levels of failures being tolerated by wholesalers and not improve end customer service. However, it may promote standardisation in policy and response. It may also be hard to define and design given retailer joint responsibility for improving data and customer service in many circumstances. However, Ofwat may want to test this concept with retailers through their interactions, as it would reflect an alternative approach to a retailer satisfaction survey and MPS/OPS incentives.