

Sarah Hendry

Director, Floods and Water
Department for Environment, Food and Rural Affairs

20 October 2016

Dear Sarah,

Ref: an updated assessment on progress, from the Open Water Assurance Group

I am writing a short update to you in my capacity as Chair of the Open Water Assurance Group which shares our current view on readiness to open the new water retail market for non-household customers in April 2017. As you will recall, I previously wrote to you in August and refer back to the themes I drew out on that occasion. These remain relevant, but the group has reflected on changes since that letter to offer a revised high-level view of risks, achievements and priorities. As before, this commentary is intended to complement the extensive evidence you have gathered from complimentary strands of assurance carried out across the programme.

The group met in October to consider progress during a critical period for the programme, and were pleased to see a successful transition into the planned phase of shadow market operations. In particular we are encouraged by progress to put in place the fundamental requirements that allow the market to open, and our confidence when assessing readiness across the programme has increased accordingly. This by no means negates the fact that there are still many challenging elements that will need to be completed by all those involved. Opening the market according to the proposed schedule is entirely reliant on IT systems being functional and proven, and we are not yet at the stage where that final element of assurance is available. This is something we will discuss at our final meeting. We have also considered areas that will need further attention over time to develop a high-performing market.

Complexity and timescales

1. We begin by reiterating the well-recognised position that this is a complex programme of work operating to challenging timescales. Governance arrangements recognise the interdependencies between the programme partners and market participants and these have supported the successful delivery of recent critical milestones. Nevertheless earlier delays, particularly with the central market operating system (CMOS), do continue to have an impact where they reduce the amount of time to test the operation of systems and processes in the shadow market.

Data and systems

2. Progressing to the shadow market is a significant milestone, and it is reassuring that this went to plan with only a small proportion of a Severn Trent data load to be completed at the time of writing. This ensures companies can take full advantage of the opportunity to test and improve their processes during shadow operations. However, we understand that a number of key activities, in particular the effectiveness of the settlement process, remain untested. We will also need to see that future system

releases provide the full functionality to open the market without adversely affecting its stability. Positive affirmation once these key steps are successfully completed is absolutely fundamental to confirming any judgement that the market is ready to open.

At this stage it is still difficult to form a view as to the standard of data in the shadow market. Poor data could have a substantial impact on customers' experience of the new market. MOSL and participants both recognise the importance of enhancing data quality, and we would reiterate the importance of using the shadow market to test and improve data completeness and accuracy.

Customer awareness and customer experience of the new market

3. The group notes that the Communications group recently delivered significant elements of customer awareness groundwork, including launching a new programme website to offer impartial information. Scoping of a national awareness campaign is ongoing, but activities are not yet fully defined and so we do emphasise the imminent need for this activity. The group would like to continue to receive sight of this work and agree that it will need to be carefully targeted towards those customers currently least-engaged, without duplicating market participant activity. In recognition of the fact that customer engagement inevitably builds over time we do however consider customer awareness to be critical to the ongoing success of the market rather than a barrier to opening.

In addition to the points previously raised we believe further consideration should be given to ensuring bilateral operational processes that take place between the retailer and the wholesaler are refined over the shadow market period. We suggest the programme considers what role it may have in building confidence that companies are undertaking the testing of relevant operational scenarios during the shadow phase to enhance early customer experiences in the new market.

Incentives for retailers (including new entrants) and customers

4. We previously discussed the need for the right incentives to be in place for all players in the new market. We still recognise that this is vital to realise the full potential of the competitive market. The group repeats its previous observation that independent retailers are currently applying to enter the market, and competition among incumbents is also expected.

The group felt it was particularly important that level playing field requirements remain high on Ofwat's agenda. The targeted review has already looked at progress in areas such as the separation of wholesale and retail and staff training and it is expected that this will be followed up in the current months. Regulation of company compliance in this area is solely within Ofwat's remit as the independent regulator, but I feel it important to note that the group agreed they should continue to seek sensible assurance that no activities will adversely affect the evolution of the new market, without being overly-prescriptive.

Visibility and market participant readiness

5. Clear progress has been demonstrated by the successful applications that all companies have made to achieve Market Entry Assurance Certification from MOSL. The framework of formal letters of assurance ensures that the programme receives Board-level insight into the latest state of preparedness. The group acknowledged some diversity in the arrangements that companies have adopted when moving into shadow operations and suggested consideration be given to the risk profiles of companies' forward programmes.

Contingency

6. We previously recommended that the programme developed contingency scenarios and mitigations to ensure a shared exploration and understanding of any fundamental barriers to market opening and to establish mitigations that could be put in place. We are content that this work has now been substantially developed and that it confirms the position that there is no expectation of a significant risk to the opening of the market in April 2017.

Conclusion

The group's confidence that the fundamental requirements are in place for market opening in April 2017 has increased incrementally at each meeting, in light of demonstrable progress across the programme. Furthermore, we note that issues that do not act as a barrier to market opening, but which do hold sway over its successful development, are subject to increasing attention. Vigilance and oversight needs to continue, particularly on data and systems, upon which the successful opening of the market is dependant, as well as on the readiness of participants and customer awareness. We will meet again in December and work towards offering you our final advice early in the new year.

Yours sincerely,

Richard Macdonald