



The voice for water consumers
Llais defnyddwyr dŵr

CCW's response to the Invitation to comment on the CMA's Pennon / Sumisho Osaka Gas Water UK merger inquiry

March 2024

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1. Introduction

The Consumer Council for Water (CCW) is the independent voice for water consumers in England and Wales. Since 2005, we have helped thousands of consumers resolve complaints against their water company, while providing free advice and support. All of our work is informed by extensive research, which we use to champion the interests of consumers and influence water companies, governments and regulators.

We welcome the opportunity to comment on the CMA's Pennon/Sumisho Osaka Gas Water UK merger inquiry.

2. Executive Summary

The merger of SES Water with Pennon will reduce the ability of CCW and other stakeholders to compare the effectiveness and performance of water companies. For CCW this is crucial, especially in areas that matter to customers. If we lose comparators, we will lose the ability to scrutinise how SES Water serves its customers and how they experience their services at a more local-level.

We recommend that separate performance targets are applied for at least the remainder of this price control (2020-25) and the next one (2025-2030). And, maintain a requirement to report complaints and other performance data to CCW until 2030.

Performance Commitments should only be combined after 2030 to show that, in comparison to the Pennon companies, SES Water's performance has improved where it has to. And does not get worse in areas where the company is already performing well. This is critical in areas where performance differs significantly between SES Water and Pennon or where there are issues particular to the areas served by the companies.

The merger of both companies can also have implications on:

- Customer trust, especially when this is at a 12 year low. Pennon should ensure that it will continue to work to improve customer trust – both in the South West region and now in the South East, as the owner of SES Water.
- Performance improvements. We would like to see Pennon set out clearly how it will improve the customer service experience for customers of all its group companies by sharing learnings and insights from the different business experiences.
- Cost efficiencies. Customers should receive a share of the benefits of any lower costs or greater cost efficiencies and this should be transparently explained to improve customer trust.
- Billing and customer experience. We would like customers' bills to continue to have the SES branding and logos and remain as clear as possible to avoid confusion. Consideration should also be made about the location of SES Water's customer service team – we would like it to remain local, if SES Water's customers want that option.
- Business customers. If the acquisition of SES Water by Pennon goes ahead, this will mean that three retailers operating in the Non-Household (NHH) water retail market will all sit

under the same parent company¹. There is a risk this might lead to the development of anti-competitive practices that could result in detriment with non-household customers who are engaged or may wish to engage with the market. The CMA should require Pennon to offer undertakings or assurances on this aspect of the acquisition.

3. Detailed Response

Implications for regulatory benchmarking

Pennon owns two water only companies, Bournemouth Water (acquired 2015) and Bristol Water (acquired 2021). It owns one water and sewerage company, South West Water.

CCW and other stakeholders use comparisons and benchmarking in order to judge the effectiveness and performance of water companies. For CCW this crucial, especially in areas that matter to customers. The merger of SES Water with Pennon may reduce the scope for comparison.

If we lose comparators, we lose the ability to scrutinise how SES Water serves its customers and how they experience these services. The loss of comparators will also affect how the companies are judged on their performance by the regulator, Ofwat and how the incentives to improve performance are set. We think that the merger of the companies should include mitigation measures if the comparators were lost.

Separate performance targets must be applied for at least the remainder of this price control (2020-25) and the next one (2025-2030). There are areas where there is a big difference in performance between SES Water and Pennon or where there are issues particular to the areas served by the companies. For example, SES Water is company that performs well on leakage, while South West Water's performance is below average².

This level of transparency which would be lost if the performance targets were combined, reduces the opportunity for CCW, customers and other stakeholders to understand and scrutinise how SES Water customers are being served.

There is precedence for creating separate performance targets. Bournemouth Water and South West Water, and Bristol and South West Water reported separately in the period after the two companies' merger. This will provide a number of safeguards for customers.

Performance Commitments should only be combined after a period of time has passed to show that, in comparison to the Pennon companies, SES Water's performance has improved where it has to, but does not get worse in areas where the company is already performing well. Even then, this would need to be approached with caution, as combining performance targets would limit transparency on areas of underperformance across the group and with other companies.

Appendix A includes comparisons of performance indicators.

¹ Source for Business, Water2Business are owned by Pennon, and SES Business Water, owned by SES Water.

² 2022-23 [Water company performance - CCW](#)

Implications on customer trust

Trust in the water sector is at a 12 year low. In part this is linked to increased awareness of pollution in water courses linked to sewer overflows. As a result, there is a risk that customer trust in SES Water could fall now that the company is linked to a water and wastewater company. Understanding what action needs to be taken to build trust in water companies is a must if the water sector is one that works for people and the environment.

CCW's research suggests that consumers want water companies to inform them on how they are improving on transparency and on their work to protect and enhance the environment. In this context the two issues most commonly mentioned by people were leaks and polluting of rivers and seas, and these risks further damaging the trust in the sector.

Addressing these issues will be a first step in regaining credibility. Pennon must assure the CMA how it will work to improve customer trust – both in the South West region and now in the South East, as the owner of SES Water.

Benefits for customers from the merger

Performance improvement

The merger between Bristol Water and South West Water has not translated into improved customer experience for their consumers. In Ofwat's C-MeX measure, which looks at customer satisfaction with contact handling as well as perceptions of the company, Bristol Water was 6th in 2020-21 and remained there in 2021-22. South West Water was 12th in 2020-21 and remained there in 2021-22.

To ensure customers benefit from the SES Water/Pennon merger, we would like to see Pennon set out clearly how it will improve the customer service experience for customers of all its group companies by sharing learnings and insights from the different business experiences. This should ensure all companies move to a higher performance level.

Cost efficiencies

In any merger between water companies, the acquiring party is able to gain benefits from the cost efficiencies resulting from shared processes and, in some instances, resources.

Customers should receive a share of the benefits of any lower costs or greater cost efficiencies and this should be transparently explained to improve customer trust.

Pennon needs to be clear if it intends to extend its shareholder model (WaterShare+³) to SES Water customers. This model offers customers shares in the business or a monetary equivalent. The share offer enables customers to benefit from outperformance as well as having direct input into how the company is operated.

Billing for household customers and the customer experience

At present, SES Water bills some of its customers on behalf of Thames Water for sewerage services through a joint billing arrangement. The remaining SES customers receive a separate bill from Southern Water for their sewerage services.

³ More information about [WaterShare+ | South West Water](#)

We would like customers' bills to continue to have the SES branding and logos and remain as clear as possible to avoid any confusion about who supplies their water.

Consideration will need to be made about the customer service operation of SES Water. We know that customers appreciate talking to customer service teams who are based in the area that they live. Cambridge Water's customers did not appreciate the shift of the customer service centre to South Staffordshire Water, and wanted to hear Cambridge voices. Issues that appear relatively small can affect trust.

Separate price controls

While the Pennon acquisition may lead to some cost efficiency benefits from shared processes, Ofwat should retain separate price controls for SES Water and other Pennon companies at least for the next price control period in 2025-30 to protect SES Water and Pennon customers, to ensure that the price they pay is relative to the actual cost to serve.

Business customers

If the acquisition of SES Water by Pennon goes ahead, this will mean that three retailers operating in the Non-Household (NHH) water retail market will all sit under the same parent company (Source for Business, Water2Business⁴, and SES Business Water, (the last being currently owned by SES Water)). There is a risk that this might lead to the development of anti-competitive practices that could result in detriment to those non-household customers who are engaged or may wish to engage in the market.

To ensure this risk is addressed, we believe the CMA should require Pennon to offer undertakings or assurances on this aspect of the acquisition, so that market participants and relevant stakeholders can be assured this risk does not materialise and business customers will not be made worse off.

Enquiries

Enquiries to this consultation should be addressed to:

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⁴ Water 2 Business is owned by both Wessex Water and Bristol Water. Therefore, Pennon control part Water 2 Business through the acquisition of Bristol Water. More information here: <https://www.water2business.co.uk/your-account/your-bill/our-tariffs-and-charges> .

Appendix A

For information - comparisons of some of the performance indicators of relevant companies are listed below:

- There were substantial differences in 2022-23 for leakage performance with SES Water's 76.2 litres/property/day compared to South West Water's 103 litres/property/day. Keeping these comparators allows companies to seek to learn lessons from companies who are performing better than them.
- South West Water also performs poorly on water supply interruptions with 8:42 minutes lost compared to SES Water's 3:51 minutes⁵.
- In 2022-23, South West Water had a greater proportion of customers (per 10,000 customers) on its priority services register⁶, when compared to SES Water – 778 versus 681.
- For CMex⁷, maintaining a comparator with Bristol Water is helpful as SES Water had a score of 76.03 (in 13th place out of 17), versus Bristol Water achieving 6th place with a score of 80.68. There appear to be lessons that can be transferred from Bristol Water (also a water only company) to SES Water to help improve its customer satisfaction score.
- Customer complaints is another area where SES Water can learn from Bristol Water. During 2022-23, Bristol Water was one of the top performers in terms of complaints with 23.94 complaints per 10,000 connections where SES Water had 41.02 complaints per 10,000 connections.

⁵ 2022-23 [Water company performance - CCW](#)

⁶ The Priority Services Register (PSR) allows water companies to assist customers who need additional support. This can be because of illness, disability, financial difficulties or language barriers. All water companies in England and Wales have schemes which allow customers to register for free additional support so that regardless of their circumstances they have appropriate access to water and sewerage services. [Extra free help - priority services - CCW](#)

⁷ CMex – the Customer Measure of Experience is an incentive developed by Ofwat to measure the quality of the service provided by all water companies in England and Wales. It is scored out of 100, the higher the score, the better. More information is available here: [DiscoverWater \(en-GB\)](#)