

Open Water

The New Retail Market For Water And Sewerage Services

A Discussion Paper

Prepared by: Open Water Programme

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Foreward

Thank you for taking the time to read Open Water's discussion document on the design of the new market arrangements for retail competition in the water and sewerage services in England.

The water industry is changing. The Water Bill is expected to progress through Parliament in the next session and it proposes some significant changes for the future of competition in the industry. If passed, the Bill will allow non-domestic customers to choose their water and sewerage retailer from 2017, regardless of how much water they use. This will create a network of new business customers, water retailers and wholesalers, where there may be a new role for a central market operator.

How this may work in practice is still very much open for discussion and a number of questions remain to be answered on the shape this may eventually take. To help give some guidance on the answers to these questions an Open Water Programme has been put together.

The Programme aims to facilitate the implementation of market reform in the water sector, including a new market for retail water and sewerage services for non-domestic customers in England.

The inclusive and open nature of the Programme will draw on the experience and expertise of its stakeholders aiming to stimulate innovation, increase choice for customers and drive sustainable approaches to managing our water resources.

Steered by a High Level Group (which consists of representatives of DEFRA, Scottish Government, Welsh Government, customers, Ofwat, Water Industry Commission for Scotland, potential new entrants and water companies) the Programme will develop and deliver ideas on the market architecture, the market codes that will be used, any identified central systems and standard contracts that might be needed to implement the wholesale and retail arrangements outlined in the draft Water Bill. These will of course be subject to statutory and regulatory scrutiny.

Work on the development of market codes, the identification of the necessary data, processes and systems, and the establishment of arrangements to facilitate interaction with the Scottish competitive retail market, is sponsored by the High Level Group.

The Programme will facilitate and co-ordinate industry change, provide support and guidance, engage with companies and other relevant stakeholders, and identify any impact the programme's activities have on the wider sector and monitor preparedness.

The Programme encourages stakeholders' active participation and will publish relevant papers, consultation documents and notice of stakeholder meetings and seminars.

As part of the Programme, we have produced this initial discussion paper on a number of issues and considerations in the design of the retail market. The paper is intended to raise issues to stimulate discussion among stakeholders rather than propose any specific solutions. The issues raised are currently under consideration with ongoing analysis within the Programme. It should be stressed that no organisations within the Open Water Programme have been asked to endorse this discussion paper and it is not intended to lead to any specific conclusion, merely to stimulate debate.

We would welcome your consideration of the document and your feedback on some of the issues it raises.

Transition processes may also need to be put into place to deal with what will be one of the biggest changes in England's water industry since privatisation, with measures to lower barriers of entry and open up the market to new entrants to encourage competition. The Programme will be shortly publishing a discussion paper on potential transitional arrangements to full retail competition.

In parallel, Ofwat have indicated that they are planning to publish separate discussion papers on market governance and level playing field issues shortly. Stakeholders' views would be welcome on these documents, in order to inform the development of further thinking in this area.

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About this document

The Draft Water Bill includes a set of proposed measures to introduce market reform in the water and sewerage markets. The key changes proposed by Government are:

- The introduction of retail competition for water and sewerage services to non-household customers in England, which will be in place from April 2017; and
- The introduction of competition in the upstream sector, which will be introduced at a later date (after 2019).

The Draft Water Bill also emphasises the need for the changes to be evolutionary in nature and balanced carefully against the priorities of maintaining a stable regulatory environment.

The proposed reforms are intended to deliver a range of benefits for customers, which are reflected by the overarching success criteria for this Programme (see Section 1.2).

The **Open Water** programme has been created to facilitate the implementation of the proposed reforms.

The inclusive and open nature of the Programme will draw on the experience and expertise of its stakeholders aiming to stimulate innovation, increase choice for customers and drive sustainable approaches to managing our water resources.

Steered by a High Level Group (“HLG”) (which consists of representatives of DEFRA, Scottish Government, Welsh Government, customers, Ofwat, Water Commission for Scotland, and water companies in England and Wales) and subject to regulatory or Government approval where appropriate, the Open Water programme will deliver the market architecture, codes, any identified central systems, and contract(s) needed to implement the wholesale and retail arrangements outlined in the Draft Water Bill.

Work on the development of market codes, the identification of the necessary data, processes and systems, and the establishment of arrangements to facilitate interaction with the Scottish competitive market, has recently begun under the sponsorship of the HLG.

The Programme will:

- facilitate and co-ordinate industry change,
- provide support and guidance,
- engage with companies and other relevant stakeholders to assess their progress, and
- identify any impact the Programme's activities have on the wider sector.

The Programme encourages stakeholders' active participation and will publish relevant papers, consultation documents and notice of stakeholder meetings and seminars.

As part of the Programme, we have produced this discussion paper to stimulate ideas about the shape of the future arrangements. The paper is intended to raise issues to enable discussion among stakeholders rather than propose solutions.

The following points should be highlighted in relation to the paper:

- This paper has been developed by the Open Water programme for discussion purposes only. The contents do not represent the policy of, and are not been endorsed by, Ofwat, DEFRA or any of the home organisations of the members of the HLG.
- The paper is not intended to lead to any specific conclusion, but to stimulate debate. While the paper sets out a number of working assumptions on the potential development of the retail market going forward,

these assumptions are made for illustrative purposes and do not preclude in any way the adoption of alternative options.

- All working assumptions made do not fetter or pre-empt in any way Ofwat and Defra's discretion in regulatory and policy decisions (including, but not limited to, decisions relating to the ongoing price review). If details of Ofwat's price review are required, these will be found in Ofwat's forthcoming price review methodology, and other documents which are clearly linked to the price review (such as the final determinations in due course). For the avoidance of doubt, were there ever to be any inconsistency between this discussion paper and Ofwat's price review documents, for the purposes of the price review the price review documents would take precedence.
- The paper is intended to raise issues to stimulate discussion among stakeholders rather than propose any solutions. These issues (for example, in relation to alternative options for the role of a Market Operator) are still under consideration within the Programme and the HLG - further analysis and consultation is required to assess the relative merits of alternative options for the scope of the retail market.

The Programme team will be holding workshops with stakeholders which will help to frame some of the key themes for discussion. Workshops will be targeted towards different stakeholder groups, comprising regulators, existing water companies, retailers (including potential new entrants), and customers. More information on this will follow shortly. Feedback received will be key to inform the development of the retail market.

In the meantime, we hope you will look at the document and consider some of the issues it raises. If you have any feedback that you want to give in advance of any workshops, or wish to register for future events please email us at michelle.lewis@open-water.org.uk.

For the avoidance of doubt, this document does not constitute a formal regulatory or policy consultation, and all formal consultations and decisions on the retail market will be undertaken by the relevant bodies (i.e. Ofwat and/or DEFRA).

1. Introduction

1.1. High Level Principles and Scope Definition

The Draft Water Bill includes a set of proposed measures to introduce market reform in the water and sewerage markets. The key changes proposed by Government are:

- The introduction of retail competition for water and sewerage services to non-household customers in England, which will be in place from April 2017; and
- The introduction of competition in the upstream sector, which will be introduced at a later date (after 2019).

The **Open Water** programme has been created to facilitate the implementation of the proposed reforms, steered by a High Level Group (HLG).

This discussion paper sets out some considerations and options in the design of the new market arrangements, focussing on the proposed arrangements for retail competition. We refer to the options and considerations set out in this discussion paper as a “strawman”.

A number of high level principles have informed the development of this strawman. First:

*“Anything that has to be newly created in order to facilitate the function of the market across England and Wales should be **common and centralised**, on the basis that we design and build once and not many times over, unless it is proven otherwise through cost benefit analysis or prohibited by design.”*

This principle applies, unless there are compelling reasons not to do so, to the following three areas:

- **Market Processes.** Processes that involve two or more participants should be common across the market in England.
- **Market Data Definitions and Flows.** Data items which are shared between participants should have common definitions and be communicated through standardised data flows.
- **Market Systems.** New systems and organisations required to facilitate the market are centralised.

The second high level principle is that market **consistency** should be achieved when practical. This includes internal consistency within the market, consistency across markets (e.g. with Scotland), as well as consistency across market participants. The various dimensions of market consistency are discussed in more detail in Appendix 3.

The following considerations are also important in relation to the scope of this market strawman:

- The scope of this paper is limited to the **English retail market**, reflecting current understanding of policy. In order to inform more detailed design of the market, it will be important to consider potential extensibility of the market to Wales, as well as issues in relation to the interaction between the two markets (for example in relation to how the new English market will interact with the existing market for >50 ML customers in Wales). It is also currently proposed that the English and Scottish Markets will be interconnected and compatible, providing a seamless customer experience.
- Whilst the focus of this paper is on the retail market only, it is recognised that different upstream models could exist, and it is important not to preclude any of these in the development of any strawman for the retail market. Therefore, as part of the development of this strawman, this consideration has been taken into account. In addition, it is expected that there will be checkpoints at appropriate stages in the development of the retail market, to ensure appropriate consideration is given to interactions between retail and upstream market design.

- The scope of this strawman includes core transactions of water and wastewater services between wholesalers and retailers. It may also cover further ancillary products and services; however further work is required to explore this in more detail.
- This strawman is not intended to cover relationships between retailers and the customers.
- This strawman is not intended to cover every eventuality in the market. In particular, it is recognised that there may be transitional arrangements and existing arrangements under the Water Supply Licence (WSL) rules that may continue in the future and will not necessarily be incorporated in the new market design. Therefore, the arrangements relating to WSL Combined Supply Licences have not been considered in detail as part of this strawman.
- Nothing in this strawman is intended to interfere with or constrain future innovative bilateral commercial arrangements between players.
- This strawman is intended to be consistent with the recommendations included in the Draft Water Bill. A recent DEFRA consultation highlights the possibility for changes to the draft Water Bill, therefore certain assumptions or recommendations may need to be reviewed in light of possible changes in the Water Bill.
- This strawman is also intended to be consistent with the draft methodology for the 2014 Price Review which Ofwat consulted on earlier in the year. Ofwat will set out its final methodology for that review shortly, therefore certain assumptions or recommendations may similarly need to be reviewed in light of possible changes to that methodology.

1.2. Vision and Objectives

The proposed strawman is also intended to reflect the Programme vision that Ministers have agreed with the High Level Group, consistent with the requirements of the draft Water Bill. The key elements of this are set out in Table 1 below:

Table 1: Programme Vision¹

Vision Statement	
<p>The Market Reform Programme has been created to support delivery of the UK Government's vision for the future of water management in England, set out in the Water White Paper.</p> <p>We want to support a resilient water sector, in which water companies are more efficient and customer focused, and in which water is appropriately valued.</p> <p>We will improve the range and quality of services offered to customers by removing barriers to competition, fostering innovation and efficiency, and encouraging new businesses to enter the market.</p> <p>We will create markets where all participants operate on a level playing field.</p> <p>Our reforms will drive more sustainable use of resources and keener pricing for customers.</p>	
Overarching Success Criteria	
<ol style="list-style-type: none"> 1. All non-household customers in a position to negotiate better targeted, more efficient and more cost effective services. 2. Outcomes are cost-beneficial for the majority of customers. 3. The new competitive markets are fair, transparent and efficient. 4. The market delivers a seamless customer experience in England and Scotland. 5. Reform incentivises innovation by both existing and new market participants. 6. Reforms to upstream markets in England drive sustainable and efficient use of water, encouraging innovation and choice in alternative water resources and sewerage services. 	
Retail Market Programme Outcomes	
Objectives	Measures
<ul style="list-style-type: none"> • Benefits across the non-household customer base outweigh costs. • Household customers experience no negative impacts. • A level playing field with no undue discrimination. • Market participants protected from undue risk. • Effective and transparent transition arrangements in place. • Regulation is fit for purpose and well aligned to market arrangements. • Arrangements are flexible and capable of adapting to change. • New entrants have confidence in the market. 	<ul style="list-style-type: none"> • Direction of average non-household bills • Awareness of the new markets in different customer groups. • Levels of market engagement for example: <ul style="list-style-type: none"> ○ Number of customers testing the market e.g. via a tendering exercise ○ Number of customers renegotiating tariffs and/or service levels. • Levels of customer satisfaction. • Numbers of relevant complaints. • Level of transaction costs. • All water companies are prepared and have the required systems in place by key dates.

¹ Source: Market Reform Programme Framework Document

1.3. Structure of the Document

The remainder of this document is structured as follows:

- Section 2 provides an overview of the current market arrangements and the key issues with the functioning of the market;
- Section 3 provides an overview of the what the future new market arrangements might look like and outlines how key roles and activities may change in the new market;
- Section 4 outlines some illustrative examples of how the market could work in practice, from the perspective of different players;
- Section 5 provides some initial thoughts on governance and codes;
- Section 6 provides initial thoughts on transitional arrangements;
- Appendix 1 illustrates some potential activities that may be required in relation to market facilitation;
- Appendix 2 includes the key assumptions underlying the strawman;
- Appendix 3 provides an overview of the various dimensions of market consistency; and
- Appendix 4 illustrates options for how a wholesaler might get paid for the provision of wholesale services to retailers.

2. Overview of current market arrangements

2.1. Market Arrangements in England and Wales

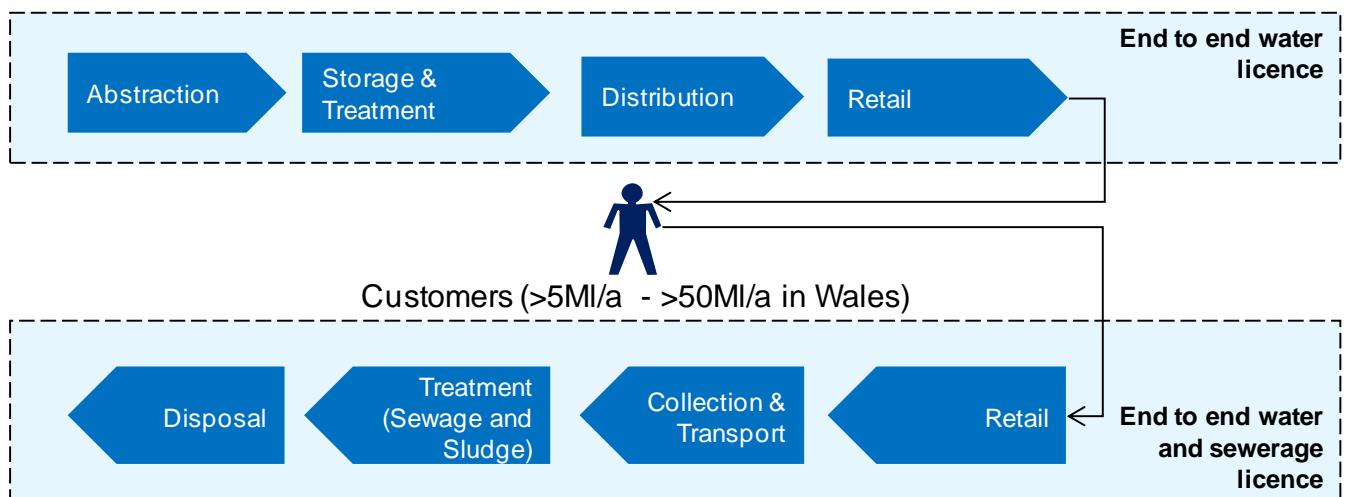
At present, the water sector in England and Wales consists of:

- Ten vertically integrated, regional monopoly, Water and Sewerage Companies (WaSCs);
- Ten vertically integrated, regional monopoly, Water only Companies (WoCs);
- Five newly appointed companies providing water and / or sewerage services to specific sites; and
- Eight water supply licensees offering water to non-household customers that are able to choose their supplier.

With the exception of large users of water (i.e. with annual consumption greater than 5 million litres in England and 50 million litres in Wales), customers are unable to switch their water supplier.

The chart below illustrates the water and sewerage supply chain for non-household customers. WOCs and WaSCs currently hold “end-to-end” water licences and water and sewerage licences respectively.

Figure 1: Water and Sewerage Supply chains for non-household customers



In an attempt to introduce competition in the water sector, the Water Act 2003 put in place a framework for a limited retail market for water, enabling very large water users to switch suppliers and new players to enter the market. Under the Water Supply Licence (WSL) regime, a new entrant can choose:

- a Retail Only Licence, which authorises them to provide retail services; or
- a Combined Water Supply licence, which authorises them to provide both retail and upstream services².

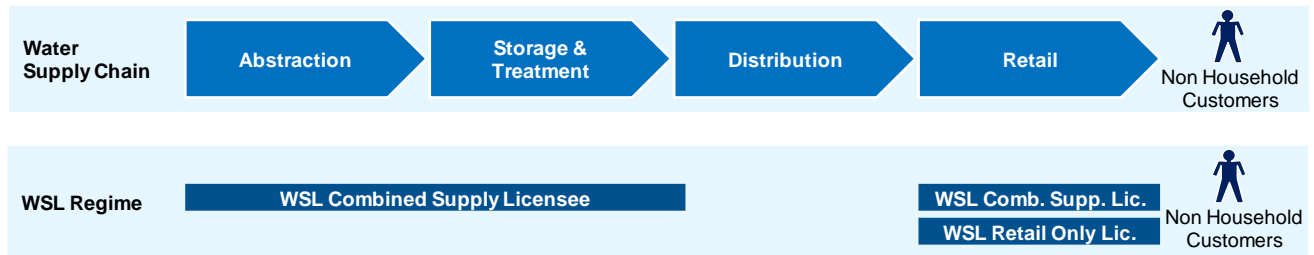
The WSL regime applies to water services only and not to sewerage services.

The figure below provides an illustration of the relationships between the two types of WSL Licence and the water supply chain.



²“Upstream” services in this context means supplying raw or treated water to customers by introducing water into the incumbent water company’s supply system. “Retail” services includes some or all customer facing services, for example billing, meter reading and call centre services

Figure 2: WSL Regime



Up to 2011, one customer had changed retailer under the WSL regime. As a first step to addressing this, in December 2011, the Government increased the size of the WSL market by lowering the annual water consumption threshold at which customers can switch retailer from 50 million litres to 5 million litres. Since the introduction of these changes, we understand that two further customers have switched retailer.

Competition in the water and sewerage markets is also enabled through the 'New Appointments' (or 'inset') regime which allows large users³ or developers of greenfield sites to choose alternative suppliers to the incumbent water and/or sewerage company. To date, there are five New Appointees under the inset regime.

2.2. Key Issues in the Current Market in England and Wales

The current market structure and arrangement in England and Wales has been examined on a number of occasions, both by Ofwat and in the Cave Review commissioned by government. It has a number of issues. In particular:

- **From a customer perspective**, water companies are considered to be less innovative and providing lower levels of customer service and focus compared to companies in other sectors, and customers are not receiving the level of support and encouragement they would like in managing their water consumption. Furthermore, customers with a multi-regional presence have to interact with multiple water companies, which can be inefficient and time consuming for them. Business customers have consistently raised these issues with independent analysts (see for example the Policy Exchange report "Hobson's Choice"). CCWater research also shows a high proportion of business customers wanting more retail choice;
- **From a regulatory/legislative perspective**, it is felt that the lack of competition is resulting in lost opportunities to drive efficiencies and improve service. In particular, the following are issues with the present WSL regime which have led to a low degree of competitive activity:
 - The small size of the WSL market;
 - The requirement on new suppliers to agree prices and terms on an individual basis with the incumbent water companies, which can be burdensome and time consuming;
 - The requirement on a party wishing to provide upstream services to the WSL market to also provide the associated retail services;
 - The absence of arrangements equivalent to WSL for the sewerage value chain; and
 - The Costs Principle (the current approach to access pricing) which restricts available margins.

This has led to the set of proposed measures to introduce market reform in the water and sewerage markets identified in the Water White Paper and subsequently proposed in the draft Water Bill.



³ With annual water consumption greater than 50 million litres

2.3. Market Arrangements in Scotland

The Scottish market has developed independently of the English and Welsh market, as water industry and environment law are wholly devolved. In Scotland, retail competition for all non-household customers has been in place since 2008. No threshold for switching retailer exists; therefore any non-household customer in Scotland can switch their water and/or sewerage services to another retailer.

There are now eight licensed retailers in the Scottish water and sewerage market⁴. Since the market opened we understand that around 5% of the market has switched supplier and around 50% of the market have renegotiated their water and sewerage services⁵.



⁴ Source: Water Industry Commission for Scotland

⁵ Source: Business Stream

3. Overview of future market arrangements

3.1. Introduction

In response to the issues in the current English water and sewerage markets (as outlined in the previous section), the Government proposes to introduce new arrangements, with the aim of developing a well functioning market that will contribute to the delivery of the objectives and benefits outlined in Section 1.

3.2. Key Areas of Change

Relevant areas of reform outlined in the Draft Water Bill⁶ include:

- Separate authorisations are proposed for new entrants in a new water market:
 - **Wholesale** authorisation, allowing inputting of water into an incumbent water company's network.
 - **Network infrastructure** authorisation, enabling new entrants to own and operate their own infrastructure, which is connected to an incumbent water company's network
 - **Retail infrastructure** authorisation, enabling new entrants to provide the "last mile" infrastructure which will connect premises to incumbent water companies' networks
 - **Retail** authorisation, enabling new entrants to provide customer-facing services
- New separate sewerage authorisations will largely mirror those for water (**Retail, Retail Infrastructure, Network Infrastructure, Wholesale**) as well as a "**Disposal**" authorisation, which will authorise a licensee to remove waste from the sewerage system, but which is not linked to the provision of services to premises.
- Regulated access to the water and sewerage market will be introduced through the use of "market codes", an approach similar to that adopted in the energy sector and in the Scottish water sector.
- The "inset" regime may eventually be removed for new entrants and replaced with an adapted licensing regime. However, WaSCs, WOCs and existing inset appointees will be able to continue to operate in the inset market after the introduction of the adapted licensing regime.

At this stage no unbundling of licences of vertically integrated incumbents is envisaged. Therefore, under the Draft Water Bill, incumbents' duties and obligations to supply customers in their licensed areas remain largely unchanged, ie they will be performing both Wholesale and Retail roles in an integrated structure (with separate price controls).

3.3. Timing of Reform

As discussed above, reform of the water and sewerage markets is expected to be undertaken in two phases:

- **Phase 1** will involve the introduction of retail market competition for water and sewerage services to all non-household customers in England. The planned date for retail market opening is **1 April 2017**.

⁶ Note that the Draft Water Bill may be subject to change. Also note that the areas of reform listed in this section are those directly relevant to the strawman. A wider range of changes is included in the Draft Water Bill (including for example changes in the special merger regime and the role of Ofwat).

- **Phase 2** will include upstream reform. Upstream reform will follow retail market opening at a later date (after 2019).

The strawman presented in this document primarily focuses on Phase 1 reform.

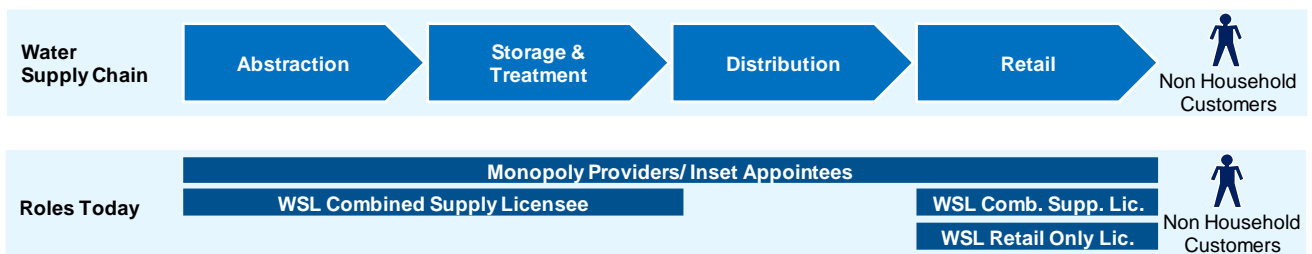
3.4. Market Roles and Players

This section provides an illustration of roles in the water and sewerage market and how these may change over time. Note that a number of these roles (in relation to future markets) are not formally defined in the regulatory regime, and therefore are provided on an indicative basis to reflect the Programme’s working assumption of how these may evolve over time. Also, for the avoidance of doubt, when referring to separate roles/functions, this document does not make any assumption in relation to potential separation requirements, as this is a regulatory and policy matter. Section 3.4.1 briefly illustrates the current roles and players and 3.4.2 briefly illustrates how these might change with market reform.

3.4.1. Current Market Players

The chart below summarises the present players in the regulated water market and their role in the supply chain.

Figure 3: Current Regulated Water Market Players

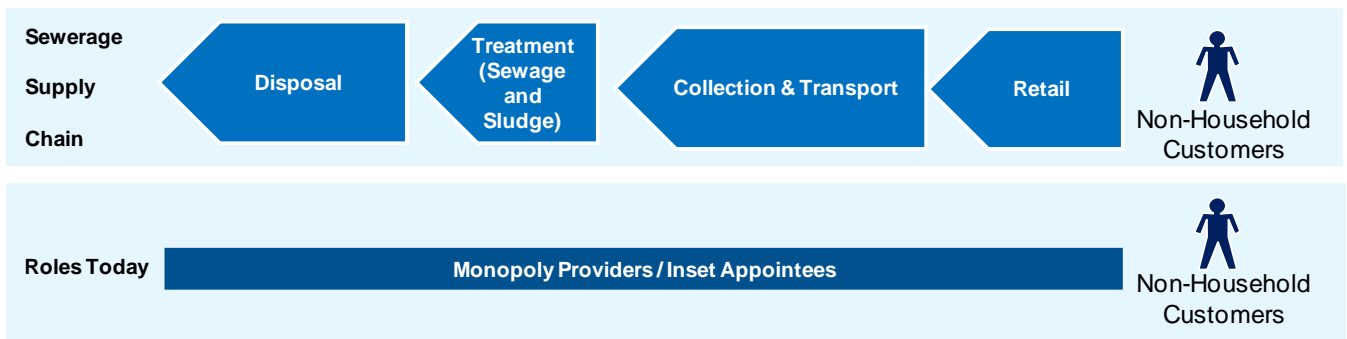


As discussed in more detail in Chapter 2, the key players in the current water market are:

- Current monopoly providers – both WOCs and WaSCs:
- WSL licensees: and
- Inset appointees

The chart below summarises the present players in the regulated sewerage market and their role in the supply chain.

Figure 4: Current Regulated Sewerage Market Players



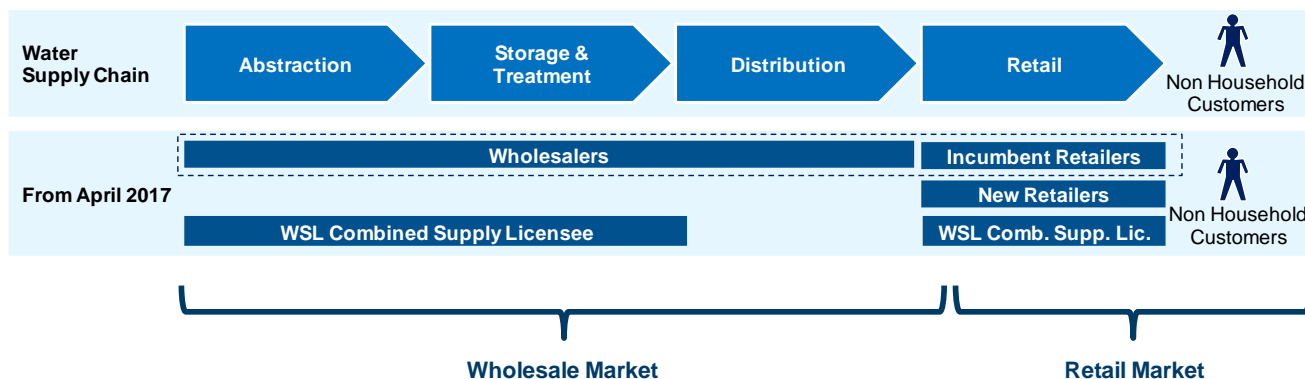
In the sewerage market, there is currently some degree of upstream competition for on-site wastewater treatment, recycling and minimisation of waste in the large business customer sector. These on-site services can be provided by services providers, who can bypass the local network if they are able to discharge or recycle treated sewage and sludge locally.

There is also a competitive framework for self-lay services.

3.4.2. Roles after April 2017

The figure below presents a view on potential roles in the water market following the first phase of reform, based on the strawman outlined in this document. In addition, it provides an illustration of the potential relationship between these roles and the wholesale and retail markets as defined in the new framework.

Figure 5: Regulated Water Market Roles in the retail market post April 2017



For the purposes of this document, it is assumed that:

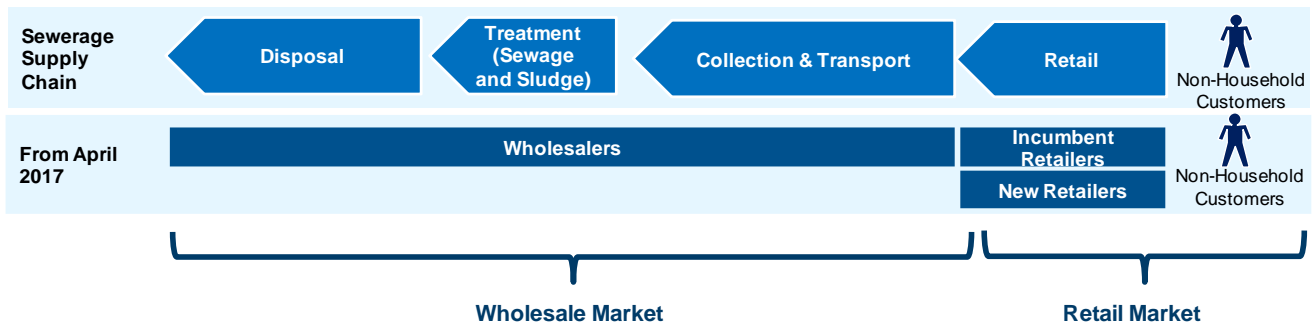
- The present Monopoly Providers may continue to undertake both Wholesaler and Retailer roles, whilst new players are expected to be able to enter the market as providers of retail services only.
- The WSL Retail Only Licence regime is assumed to be subsumed into the new Retail market structure, i.e. WSL Retail Only Licensees will operate under the same regime as all other Retailers. It should be noted though that some additional transitional arrangements may be required, for example where a WSL Retail contract extends beyond April 2017.
- The WSL Combined Supply Licence regime is assumed to continue.
- The New Appointments (Inset) regime is assumed to continue.

With respect to the markets, in this document:

- The Retail Market relates to activities between the eligible end customer and a Retailer with which the customer has contracted retail services.
- The Wholesale Market relates to interactions between Retailers and Wholesalers.

The figure below presents the potential roles in the sewerage market following the first phase of reform (i.e. from 1st April 2017).

Figure 6: Regulated Sewerage Market Roles – Phase 1 (from April 2017)



This model assumes that:

- The present Monopoly Providers may continue to undertake both Wholesalers and Retailer roles, whilst new players may be able to enter the market as Retailers only;
- The New Appointments (Inset) regime is assumed to continue.

3.5. Activities

3.5.1. Allocation of Existing Activities

The introduction of competition in both retail and upstream may result in activities which are presently performed by monopoly incumbents⁷ being performed by different parties.

The table below provides a view on the activities as well as the parties which may perform these activities in the new market. The assumed changes for this phase are consistent with the proposed direction on separation of activities for price control purposes included in the Draft Methodology consultation published in January 2013 by Ofwat⁸. In this consultation, Ofwat listed activities that are confirmed as included in retail, activities that are confirmed as excluded for retail and activities that are confirmed as split between wholesale and retail.

Ofwat also listed a small number of activities where it sought further comments before reaching a final conclusion. In these cases, it indicated its preferred option; these items are shown with (*) and the Ofwat preferred option indicated.

Furthermore, additional activities have been included in the table below, which are not explicitly outlined in Ofwat's consultation.⁹

This indicative allocation of activities may be subject to change reflecting Ofwat's future decisions on the price control framework.

⁷ Here 'monopoly incumbents' refers to the present providers of water and sewerage services. Some activities are also performed by WSL licensees, as described in previous sections. For simplicity these are not shown in this section.

⁸ In Ofwat consultation document *Setting price controls for 2015-20 – framework and approach (January 2013)*

⁹ In particular, the Ofwat consultation does not explicitly list all wholesale activities

Table 2: Potential division of existing activities (Note: this table does not assume any WSL Combined Licence activities)

Activity	Roles
Sales, Marketing & Customer Setup	Retailer function.
Billing, Payment Handling & Debt Management	Retailer function.
Customer Contact	Retailer function, explicitly including all calls whether network or non-network related, and liaison back to the Wholesaler.
Customer Account Management	Retailer function.
Demand Side Water Efficiency Services (*)	Retailer function.
Determining Meter Functionality & Capability	Combined Retailer and Wholesaler function ¹⁰ .
Meter Installation, Maintenance & Repair	Wholesaler function.
Meter Ownership	Wholesaler function.
Meter Reading	Retailer function.
Customer-Facing Developer Services (*)	Retailer function.
Provision of New Connections (*)	Wholesaler function.
Disconnection and Reconnection Decision Making	Retailer function.
Disconnection and Reconnection Site Activity	Wholesaler function.
Water Abstraction	Wholesaler function.
Water Storage	Wholesaler function.
Water Treatment	Wholesaler function.
Network Ownership	Wholesaler function.
Network Maintenance	Wholesaler function.
Customer-Side Maintenance (*)	Retailer function.
System Operation	Wholesaler function.
Trade Effluent Compliance Monitoring	Wholesaler function.
Sewerage Treatment & Disposal	Wholesaler function.

¹⁰ The Ofwat consultation document *Setting price controls for 2015-20 – framework and approach, January 2013*, indicates that there will be a role for the retailer in determining meter functionality and capability, although the nature of this role is not determined at this stage. Similar arrangements are in place in the Scottish water retail market.

3.5.2. New Market Facilitation Activities

At a high level, this strawman assumes that three new operational¹¹ market facilitation activities are likely to be required as part of the competitive retail market:

- **Supply and Service Point Registration.** Typically, in other markets this activity would involve maintaining a register of each site and its services as well as of the associated retail and wholesale services provided. This would allow retailers to identify who the present registered Retailer is in order to ensure an efficient Retailer switching process for customers.
- **Financial Settlement.** This activity is expected to involve the calculation and distribution of monies (typically between the Retailer and the Wholesaler), against the delivery of goods and/or services (typically by the Wholesaler to the Retailer). Whilst there is already financial settlement in the current market between new entrants and incumbents, additional money flows are likely to emerge as part of the future market, due to multiple parties needing to interact with each other.
- **Inter Company Data Exchange.** This activity would involve the exchange of data between different players in the market. In a competitive market, Retailers need to be able to communicate with each other effectively, in order to enable customer switching. Furthermore, it would be a pre-requisite where any new market structure results in more than one company being involved in completing an activity or delivering a service.

Section 3.5.3 provides more detail on the rationale for these new operational Market Facilitation activities as well as some examples of how these might operate in a market.

In addition to the activities outlined above, further activities related to market governance and performance assurance are likely to be required. These may involve the development, administration, monitoring and enforcement of the rules and processes underpinning the market's effective and efficient operation and participants' fulfilment of their obligations. However, to some extent this depends on the proposed market governance arrangements and has not been explored in further detail at this stage.

These market facilitation activities could be undertaken:

- By a new central Market Operator, consistent with other markets, such as electricity, gas and the Scottish water retail market;
- By Retailers or Wholesalers; or
- By a combination of the above (for example some of the activities that sit within the three high level categories could be split between a Market Operator and Retailers or Wholesalers).

A **central Market Operator** may exist to provide some of the activities related to Inter Company Data Exchange, Supply and Service Point Registration and Financial Settlement across the whole of the English market. This would be consistent with the high level principles outlined in Section 1.1 and consistent with arrangements in other markets. (e.g. in the Scottish water retail and GB energy markets).

Any decision about the market arrangements, including the role of the Market Operator, may need to take into account the structure of the upstream trading arrangements. Accordingly the above assumption could be revisited depending on the outcome of that upstream design.

It should be noted that for each of the facilitation activities (Supply & Service Point Registration, Financial Settlement, Inter Company Data Exchange) there would be some requirement for market participants to interact with others, including the Market Operator (assuming that the Market Operator undertakes some of these activities). For example the Market Operator may be responsible for maintaining the record of site registrations, but a Retailer would update those records if they acquired a customer. Furthermore, market participants may choose to shadow some of the Market Operator functions, for example performing their own financial settlement calculations to validate invoices received.

¹¹ Potential new market governance activities are discussed in Section 6

Whilst at a high level this strawman assumes that a new central Market Operator could deliver some of the market facilitation activities indicated above, more detailed discussion is required around the specific responsibilities of a Market Operator, and ultimately, on the basis of that discussion and subsequent analysis, policy and regulatory decisions around a Market Operator role will be made.

The table below outlines some initial thoughts on the sub-activities that could to be performed under each of the three market facilitation activities. Some of these activities could be performed by a Market Operator, whilst others may be performed bilaterally by the Wholesaler and/or Retailer.

Table 3: Market facilitation activities may include

Supply & Service Point Registration	Financial Settlement	Inter Company Data Exchange
<ul style="list-style-type: none"> • Maintaining a record of sites and of the registered parties for providing different services to each site • Managing queries related to site registrations 	<ul style="list-style-type: none"> • Data preparation (including aggregation, forecasting, profiling, adjustments) • Calculating Wholesale Charges • Issuing invoices • Processing payments being made between market participants 	<ul style="list-style-type: none"> • Data transmission between all market participants • Data verification / validation • Market data storage

The Open Water Programme has identified a set of options on market facilitation activities and on the potential role of the Market Operator. These options focus on the delivery of the two key systems that will be required to facilitate the retail market:

- registry of supply points and services; and
- financial settlement.

The remaining two areas of market facilitation activities (information and data exchange and market governance) are largely enablers to these two systems.

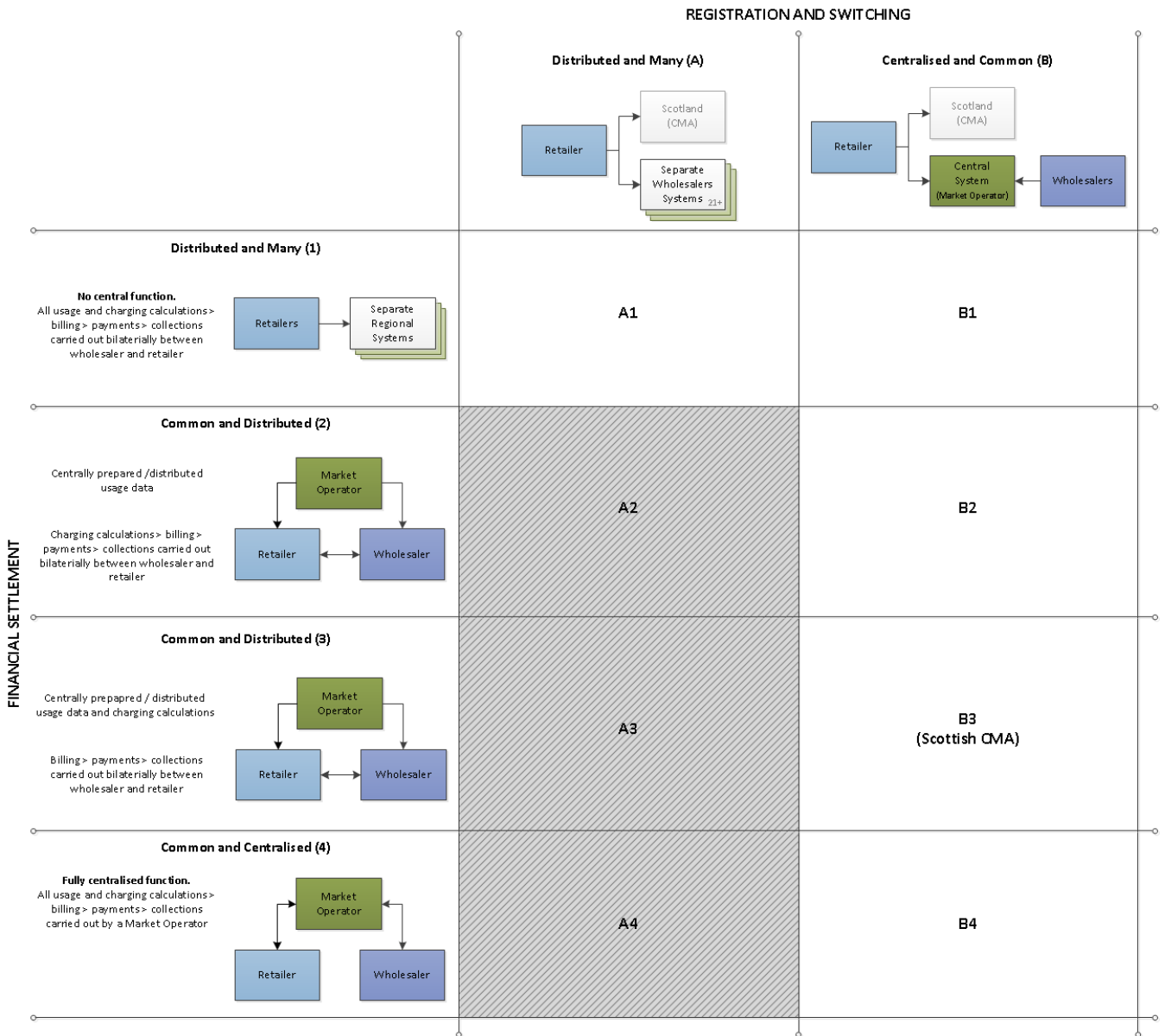
The options reflect:

- whether the registration of supply points and services and responsibility for administering the switching of customers should be centralised or distributed (between wholesalers); and
- whether the distinct stages of financial settlement (usage data collation and distribution; calculation of charges; billing, payment and collection) should be centralised or distributed (between wholesalers and retailers). The legal implications of such an option would require further consideration.

The possible combinations of options are illustrated in the table below.



Table 4: Options for market facilitation activities



A number of combinations (labelled A2, A3 and A4 in the table above) are not considered to be feasible, due to the following reasons:

- A model that would operate a distributed register but centralised financial settlement would be inefficient; and
- Financial settlement roles are cumulative, i.e. a model incorporating centralised calculation of charges would inherently also include usage data collation and distribution, and one including billing, payments and collection would in turn include usage data collation and distribution and calculation of charges.

As a result, the remaining options that are considered feasible are summarised in the table below.



Table 5: Range of feasible options for market facilitation activities

Option A1:	distributed registration and switching administration	+	distributed financial settlement roles (all)
Option B1:	central registration and switching administration	+	distributed financial settlement roles (all)
Option B2:	central registration and switching administration	+	central collation and distribution of usage data but distributed charges calculation and billing, payments and collection roles
Option B3:	central registration and switching administration	+	central collation and distribution of usage data and charges calculation but distributed billing, payments and collection roles
Option B4:	central registration and switching administration	+	centralisation of all financial settlement roles

We have not identified a preferred option for the purposes of this strawman. We would welcome stakeholders' views on the pros and cons of the different options presented.

In addition, the issue of interactions between a Market Operator and existing WSL Combined Supply Licence companies and/or inset appointees has not been addressed at this stage.

3.5.3. Examples of New Market Facilitation Activities

The new market facilitation activities identified in the previous section are explored in more detail below in Table 6.

Table 6: Potential new market facilitation activities

Activity	Description, Rationale & Examples
Supply & Service Point Registration	<p>Description</p> <p>Maintaining a record of sites and the registered parties for providing different services to each site.</p> <p>Rationale</p> <p>In the present vertically integrated market a single party is typically responsible for all activities related to water at a site, and a single party for all activities related to wastewater. Following market reform, multiple parties may be responsible for providing services to a site, and responsibility may change over time as customers switch Retailers. Visibility of responsibilities at a site could facilitate customer switching. This is similar to the arrangements in Scotland.</p> <p>Example</p> <p>Registration of who the present Retailer is for a given service point is critical to enable a new Retailer to take over supply.</p>
Inter Company Data Exchange	<p>Description</p> <p>Passing relevant data between market participants to enable market processes to be executed, and optionally, maintaining a record of the data transferred.</p> <p>Rationale</p> <p>In the present vertically integrated market a single party is responsible for all activities and hence does not need to pass data externally although that data is likely at present to be transferred internally. In a new market multiple parties may need to interact to provide different services to customers and it will be important to keep track of who is doing what and who needs what information relative to each customer site</p> <p>Example</p> <p>A Retailer may request work to be performed by a Wholesaler to repair a faulty meter reported by a customer.</p>

Activity	Description, Rationale & Examples
Financial Settlement	<p data-bbox="416 215 552 244">Description</p> <p data-bbox="416 277 1390 338">Determining and processing the financial payments between companies to pay for services provided.</p> <p data-bbox="416 371 531 400">Rationale</p> <p data-bbox="416 434 1445 593">In the present vertically integrated market, typically payments received from customers relate to invoices issued by company which provides all water and sewerage services to a customer. In a competitive market different participants may provide a range of services to a customer and the various market participants may need to make or receive payments to each other for the provision of services.</p> <p data-bbox="416 627 523 656">Example</p> <p data-bbox="416 689 1305 719">A Wholesaler would need to be paid for the provision of water to a Retailer.</p>

Irrespective of who carries out the new market facilitation activities, Retailers and/or Wholesalers may need to carry out a number of supporting or sub-activities. Some of these activities are outlined in Appendix 1.

4. How would the market work under the strawman?

4.1. Introduction

This section focuses on the key aspects of how the market might work in practice, based on the strawman outlined in previous sections. It outlines four key market processes to illustrate how new market arrangements, as outlined in Section 3, might be implemented:

- How a customer switches Retailer
- How meter readings are provided
- How operational issues/ requests are resolved
- How new sites and services enter the market

In addition, Appendix 4 illustrates a number of options on how a Wholesaler could get paid for the commodities and services provided. It presents five separate processes reflecting the options for market facilitation activities outlined in Section 3.5.2.

The key focus of this section is on the arrangements in Phase 1 (i.e. retail competition post April 2017).

The worked examples illustrate how the market may work and are described for the purposes of this strawman only. These examples make a number of working assumptions. They are made for illustrative purposes and do not preclude in any way the adoption of alternative options.

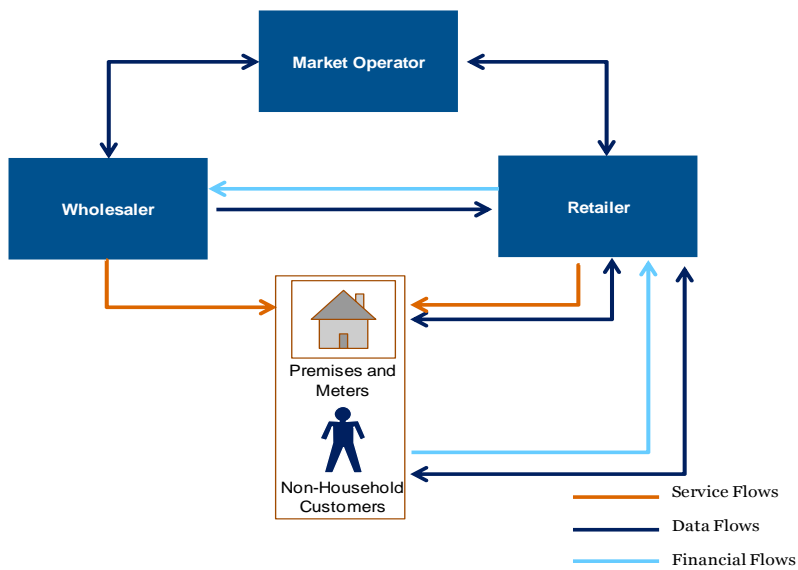
As discussed in previous sections, the key market players are expected to be:

- Wholesalers¹²
- Retailers,
- Market Operator and
- Non-Household Customers.

Figure 7 below summarises the key data, financial and physical/service flows that could be required and that are driven by the roles and activities discussed in previous sections.

¹² For clarity, this refers to the Wholesaler operating in Phase 1

Figure 7: Market Overview



4.2. Worked Examples

The remainder of this section provides a number of worked examples of how the market could operate in practice, from the perspective of the market players involved in the example. The worked examples in this section cover the following scenarios:

- How a customer switches Retailer
- How meter readings are provided
- How operational issues/ requests are resolved
- How new sites and services enter the market

4.2.1. How a customer switches Retailer

Description

This worked example involves the customer, incoming and outgoing Retailers and the Market Operator. It begins with the customer having access to the choices available to them and ends with them having switched to their new preferred Retailer.

This worked example is consistent with the current approach adopted within the Scottish Market, as described in Schedule 10 Code Subsidiary Document (CSD) 0102 (Registration: Transfers) and Schedule 11 CSD 0103 (Registration: Cancellations) of the Scottish Market Code.

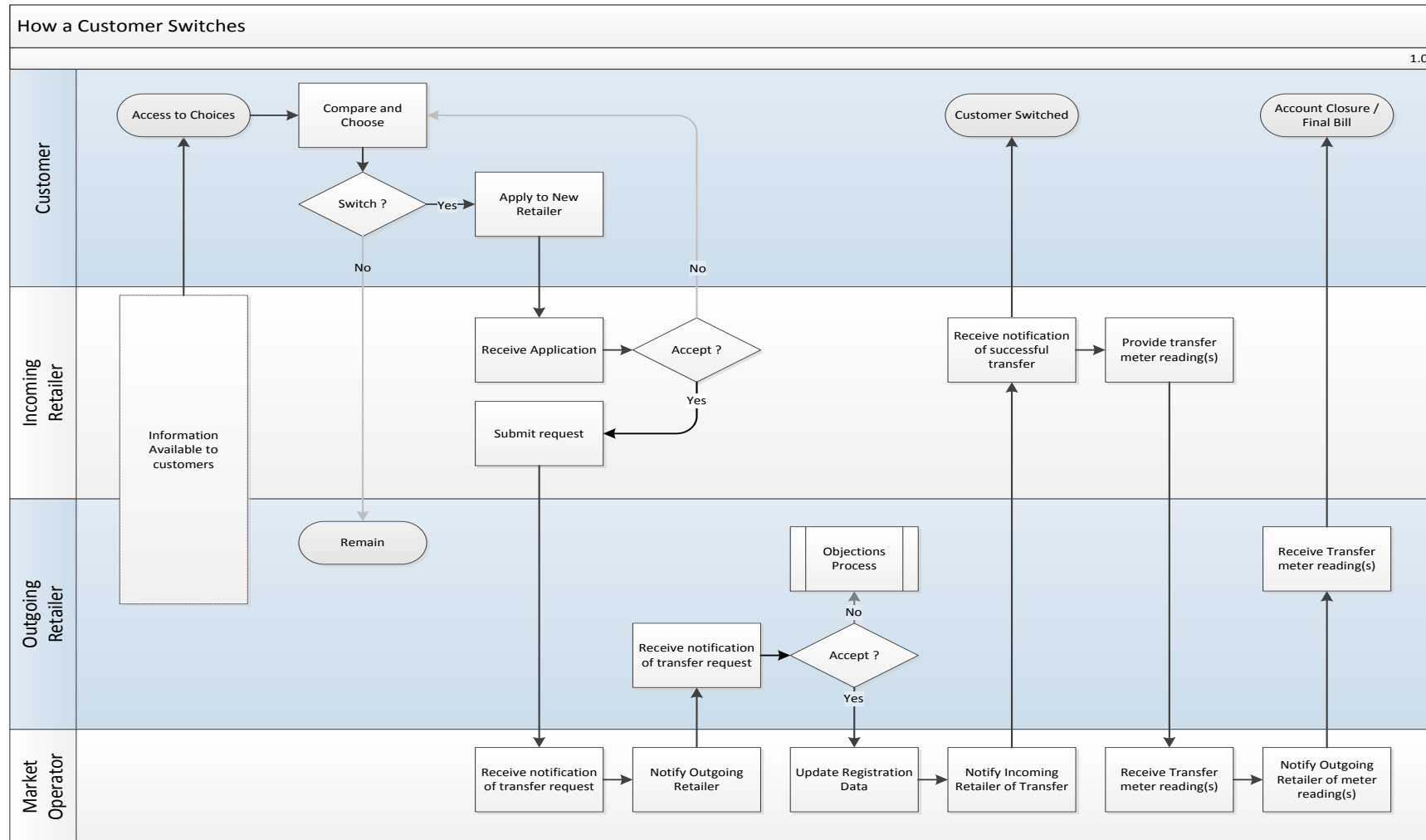
High Level Assumptions

Consistent with the high level principles outlined in Section 1, the following high level assumptions have been made in the context of this worked example:

- The process for transferring customers (premises) should be common and standard to all Retailers.
- The technical requirements for submitting requests to transfer customers (premises) should not constitute a barrier to entry and provide sufficient flexibility to ensure a level playing field between new entrants and incumbents (as with the Low Volume Interface (LVI) and High Volume Interface (HVI) in Scotland).
- The Market Operator should be the single point of contact for Retailers and Wholesalers in respect of customer transfer applications.
- All requests received by the Market Operator should be treated equally and processed to the same standards and timescales.
- The requirements for submitting transfer meter readings should be common and standard to all Retailers.
- Any market participant should have the opportunity to question or object to customer transfers affecting them.
- The customer and the incoming Retailer will have the opportunity to cancel their requests.
- The customer interfaces only with the Retailer
- Incoming Retailers will already have a contract (standard or otherwise) with the Wholesaler who provides services to the premise of the switched customer

Overview

The figure below provides an overview of this worked example from the perspective of the different market players.



Perspectives

Customer

As a customer I will be able to choose my Retailer. Having arrived at a decision that I would like to change my Retailer, I simply need to contact the new Retailer who will take care of the whole process on my behalf. I may need to provide additional information at this stage, for example on my historic consumption, number of metering systems etc and may need to allow access to my premises to confirm the services and/or other details, but this will all be arranged between myself and the new Retailer before the planned switch over date.

If I wish to cancel my request to switch then I am able to do so and I will be informed by the Retailer on how this is done.

I will be informed by my new Retailer that the switch over has been successful. If my premises are metered the Retailer or his agent may come to my site and take a meter reading on or around the agreed switch over date, or they may ask me to submit one to them myself.

My old Retailer will also contact me to confirm the switch over, the termination of my contract, to provide me with a final bill and to carry out any activity needed to complete this. If they have provided/installed any of their own equipment at my premise(s) then they may arrange to come and remove/collect it.

I have now switched my Retailer.

Incoming Retailer

As the incoming Retailer I will have received a request from a customer to provide retail services at one, many or all their premises. I may already have been in discussions with the customer prior to the request, as part of them making an informed decision, or the request may be the first contact I have had with them.

Having agreed to take on the customer, I will carry out the activities needed to make this happen on their behalf.

I will notify the Market Operator of the request to update the market registration data to reflect the change in Retailer, with effect from the future switch over date that I have agreed with the customer, and will make available to the Market Operator any data needed to process this request.

If I need to cancel the request for any reason then I will notify the Market Operator (in line with published procedures).

Should there be an objection from the outgoing Retailer to my request then I will be notified by the Market Operator. Both myself and the outgoing Retailer will settle the objection in line with the relevant code(s) or agreement(s).

I will receive confirmation from the Market Operator when the registration data has been updated and will then provide a meter reading within a set number of working days from the switch over date.

I will inform the customer that the switch over has been successful.

I will now become the registered Retailer for the customer's premises from the date of switch over.

Outgoing Retailer

As the outgoing Retailer I will be notified by the Market Operator of the request to switch the provision of retail services for a given premise(s) to a new Retailer from a given date.

I will have opportunity to object to the transfer if I have cause to do so, and must do so within a set number of days or the transfer will automatically take place. Both myself and the incoming Retailer will settle the objection in line with the relevant code(s) or agreement(s).

I will receive confirmation from the Market Operator that the transfer has been successful and I will cease to be the registered Retailer from the given transfer date.

The Market Operator will then provide me with the meter reading taken by the incoming Retailer within a set number of days from the date of transfer. I will then provide the customer with a final bill and carry out any activity needed to settle the account with the customer.

I am no longer the registered Retailer for the customers premise(s) from the date of switch over.

Market Operator

As the Market Operator I will receive requests from incoming Retailers to become the registered Retailer for a given premise(s).

Once I receive a request I send a notification to the current Retailer of the requested switch; when I receive a response I pass this back to the new Retailer.

The new Retailer will inform me of the transfer date and any other required registration information and I will update the supply point register accordingly. They will also provide me with the opening meter reading which I shall pass onto the outgoing Retailer.

Issues and Questions

In addition to agreeing whether there will be a Market Operator and what its role will be the following issues will need to be addressed as part of further regulatory and policy development and at later stages of market design. This list is not exhaustive:

- Will there be a right to refuse an application from a customer?
- How will objections between existing and new Retailers be resolved?
- How will the information about switching opportunities be made available to customers?
- Is there any merit in the outgoing Retailer being responsible to provide the switch reading (instead of the new Retailer)?
- How will overall credit worthiness of the Retailer be assessed?
- How quickly should a customer be able to switch supplier?
- Who will be entitled to what information?

4.2.2. *How meter readings are provided*

Description

This worked example illustrates how meter readings are submitted to the Market Operator by Customers, Retailers or Wholesalers.

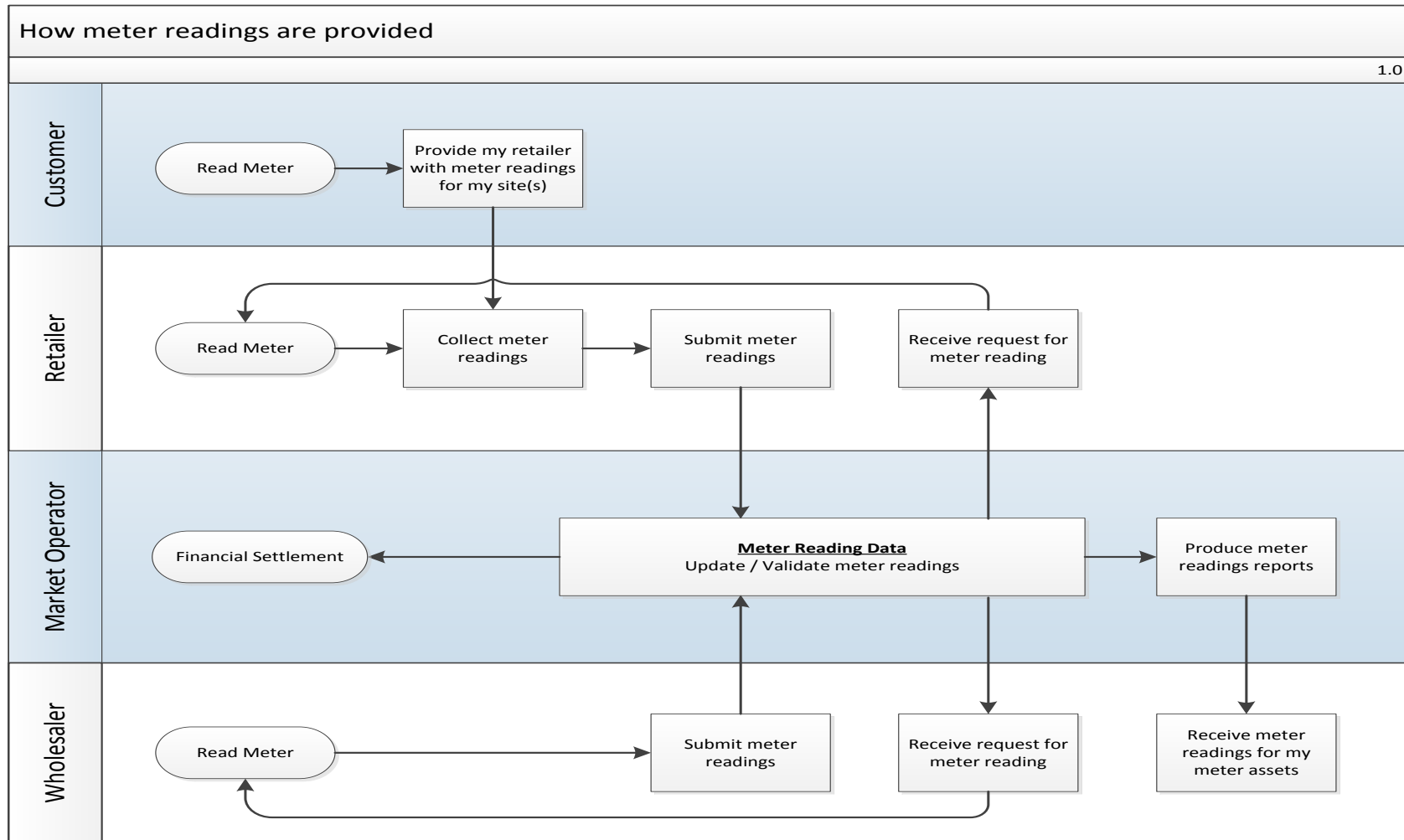
High Level Assumptions

Consistent with the high level principles outlined in Section1, the following high level assumptions have been made in the context of this worked example:

- The primary responsibility for the provision of meter readings sits with the Retailer
- The frequency and type of meter readings that are required to fulfil market requirements should be outlined in codes and/or relevant agreements and be common to all market players
- The asset owner (Wholesaler) will receive meter reading data for its own purposes from the Market Operator
- The customer interfaces only with the Retailer

Overview

The figure below provides an overview of this worked example from the perspective of the different market players.



Perspectives

Customer

As a customer I will have access to my meter(s) so will be able to obtain a reading should I choose. I may wish to provide my Retailer with a reading for example if they have been unable to obtain a recent reading themselves and I wish to provide them with a more accurate and up to date record of my consumption.

Having read the meter I am able to supply this to my Retailer.

Retailer

As a Retailer I will want to read the meters for the purposes of billing my customers and also for providing the Market Operator with consumption data on which my wholesale charges will be based. I will also be required to provide the switch over reading for any new customers I may acquire.

I may have different ways in which I obtain meter readings: for example through physical reading of the meter or through remote meter reading technology but once I have the meter readings I will collate these and submit them to the Market Operator. The frequency at which meter readings are submitted may vary but will be in line with the requirements set out in the Market Code.

If I am unable to read the meter and the customer has not provided me with a reading then I will either submit an estimated reading or the Market Operator may calculate the estimated consumption on my behalf.

I may also receive requests from the Market Operator to provide a meter reading. This may be because I have not provided a true reading for a given period of time or perhaps because the readings I have previously submitted have been excessively over or under the norm and the Market Operator is seeking validation of the true consumption as part of the settlement process.

Market Operator

As the Market Operator I will receive meter readings from both Retailers and Wholesalers. The meter readings are used to ensure the accuracy of financial settlement and also form part of the various market data sets that exist which are made available to Retailers and Wholesalers as appropriate.

I will validate the meter readings and notify the provider if the readings are such that confirmation is needed to ensure the accuracy of the data provided. This may be because of zero consumption for an occupied premise or excessive consumption over and above a level expected. Other reasons for confirming reading data may be identified and I will tell the provider the reason for any meter reading requests.

Wholesaler

As a Wholesaler I will own the meter assets and be responsible for the installation, repair and maintenance.

When a meter is installed (new or exchanged) one of the items of data I will need to submit are the reading(s) for the meter(s).

I will also receive meter reading data from the Market Operator for the meter assets that I own. This is to enable me to carry out my own operational analysis or other activities for which I require consumption data.

Issues and Outstanding Questions

The following issues will need to be addressed as part of further regulatory and policy development and at later stages of market design. This list is not exhaustive:

- Will the activities and requirements related to meter reading or alternative methods of measurement where a meter doesn't exist be covered under a market code?

- Who will be responsible for calculating estimated readings? How will the estimated meter readings be calculated?
- What are the issues related to data retained by the Market Operator (e.g. data retention, data aggregation, data protection)?

4.2.3. How operational issues/requests are resolved

Description

This worked example illustrates at a high level the arrangements by which customers and Retailers request operational work from Wholesalers.

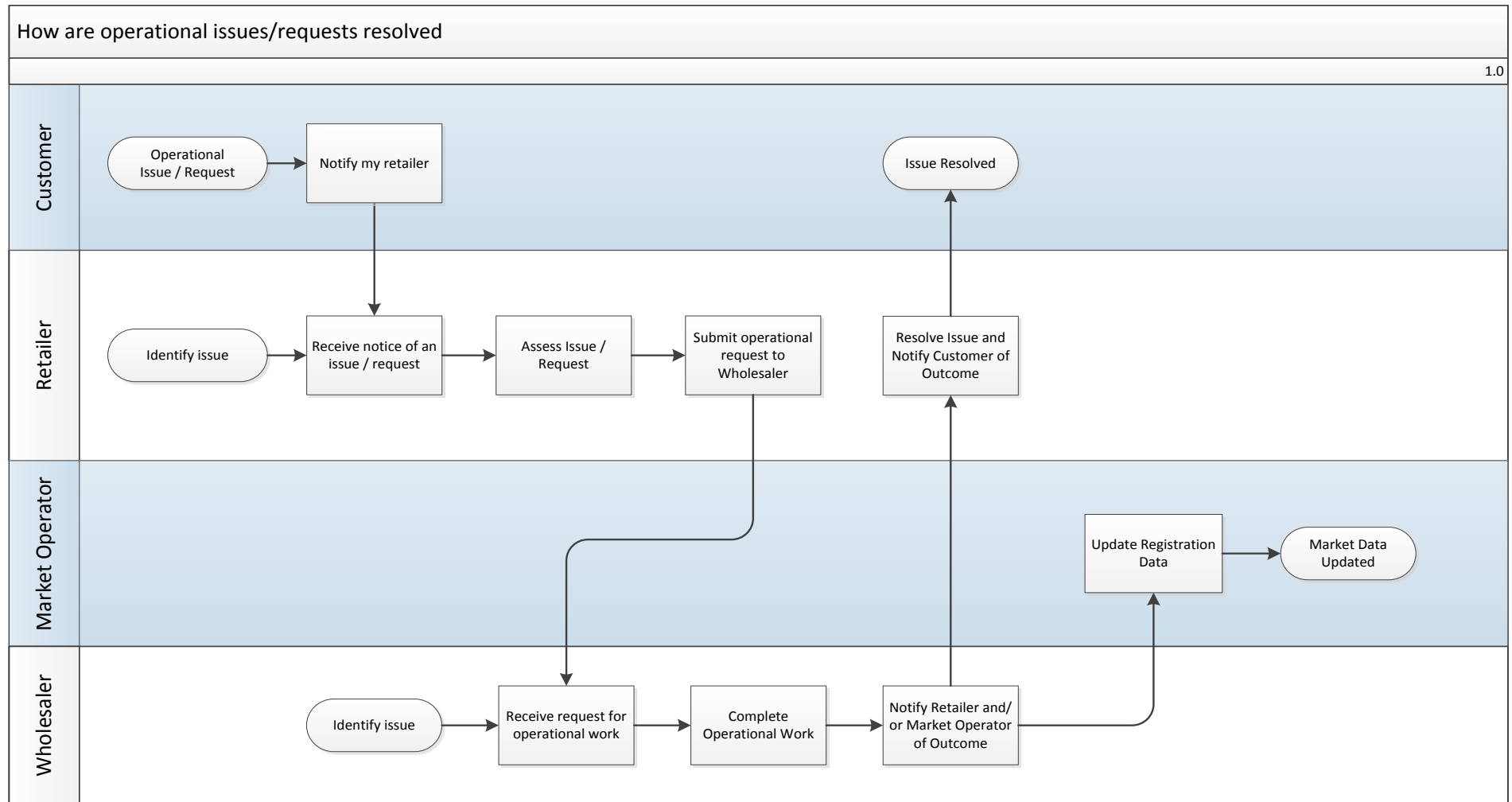
High Level Assumptions

The following high level assumptions have been made in the context of this worked example:

- It may be desirable to have a standard process for submitting operational requests
- The customer interfaces only with the Retailer
- The Market Operator has no direct role in this process, other than being notified of updates to market data resulting from operational activity

Overview

The figure below provides an overview of this worked example from the perspective of the different market players.



Perspectives

Customer

As a customer I may have many reasons to contact my Retailer to request operational services (planned and non-planned); for example I have no water or low pressure, I want to request that a meter is installed or change the size of my supply.

In all cases I will contact my Retailer who will work with me to arrive at a solution. Even in emergencies out of hours I am able to contact my Retailer for support.

I can expect to be kept informed and know when the resolution is in place.

Retailer

As a Retailer I may have been made aware of an issue by the customer, or identified an operational issue as part of my on-site activity, that I am unable to resolve and may need to request the services of the wholesale provider. I will act on behalf of the customer when dealing with all operational requests.

Having understood the operational need I will submit a request to the appropriate Wholesaler in line with the agreed procedures.

I will be provided with information as to the standard of service I can expect to receive from the Wholesaler in respect of my request.

I can expect to be kept informed on the progress of the operational works by the Wholesaler and be notified of the outcome(s).

Market Operator

As the Market Operator I will only become aware of operational works having taken place when I receive the request from the Wholesaler to update the market data that may have altered as a result of these works.

My role is to maintain and ensure the accuracy of the market data that I administer.

Wholesaler

As a Wholesaler I may have been made aware of an issue by the Retailer, or identified an operational issue as part of my on-site activity (for example a leak detected as part of proactive leakage work in the area or a faulty meter identified whilst carrying out working in a shared chamber).

I will receive requests from Retailers for operational works, and this will include out of hours contacts for unplanned and emergency works.

When I have received a request I will confirm receipt and then carry out the works as specified. I will work with the Retailer as needed during the process and notify them of the final outcome.

Where an operational request results in a change to the market data, for example a new meter is installed or relocated, then I will notify the Market Operator of the change.

Issues and outstanding questions

The following issues will need to be addressed as part of further regulatory and policy development and at later stages of market design. This list is not exhaustive:

- What is the nature of agreements covering operational issues?

- Will the Retailer have the responsibility to provide 24/7 cover? Can this responsibility be delegated to a third party (e.g. the Wholesaler)?

4.2.4. *How new sites and services enter the market*

Description

This worked example describes how new premises are added to the market register in the model described above. This can relate to new connections or to existing premises being identified as eligible for market entry.

High Level Assumptions

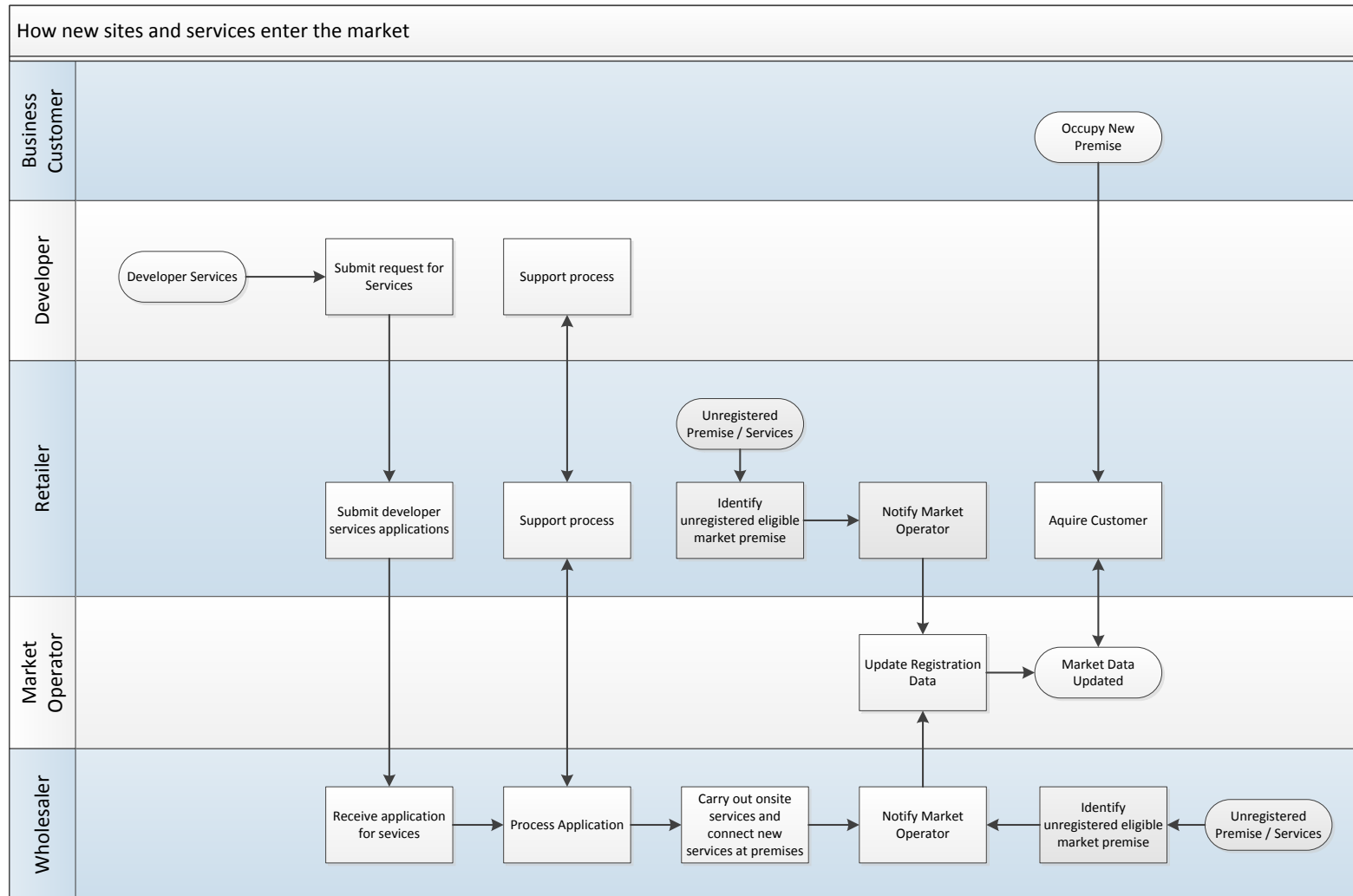
Consistent with the high level principles outlined in Section 1, the following high level assumptions have been made in the context of this worked example:

- The customer interfaces only with the Retailer
- The illustration is consistent with the Developer Services section of the Ofwat price review consultation¹³
- Developer services activities cover both Household and Non-Household developments
- Retailers and Wholesalers would have a joint responsibility to notify the Market Operator of unregistered eligible market premises and services

¹³ *Setting price controls for 2015-20 – framework and approach, January 2013*

Overview

The figure below provides an overview of this worked example from the perspective of the different market players.



Perspectives

Developer

As a developer, I will engage with a Retailer(s) who will act on my behalf and liaise with Wholesalers in all aspects of the administrative developer services process (requests for quotes, applications and queries/enquires etc.)

Retailer

As a Retailer I will be engaged by developers to carry out administrative activities and liaise with Wholesalers as required (requests for quotes, applications and queries/enquires etc.).

I may be contracted to work on behalf of a developer to manage their administrative functions across multiple Wholesalers and thus giving them a single point of contact across many wholesale regions.

Additionally, as a Retailer, I may become aware of premises that are eligible for the market but for whatever reason do not exist within the market. Examples may be unregistered properties, properties whose usage has changed etc.

I will notify the Market Operator and provide the information I have found.

Market Operator

As Market Operator I will be notified by Retailers and Wholesalers when new sites have been connected and are needed to be set up within the market registration system.

To ensure data quality there will be set procedures that need to be followed before new premises are registered and I will administer these.

Once the correct information has been provided the new premises are created and the market data updated.

Wholesaler

As a Wholesaler I will continue to carry out the developer services functions that I currently perform but instead working directly with developers I can now expect to be working with Retailers who are acting on behalf of Developers.

When new connections are made, for non-household premises, I will notify the Market Operator of these new premises coming into existence. This will include all the associated meter and service details.

Issues / Outstanding Questions

The following issues will need to be addressed as part of further regulatory and policy development and at later stages of market design. This list is not exhaustive:

- The Developer Services function is currently subject to consultation so this process will need to be revisited once the consultation is concluded. Issues and Questions that might otherwise have been stated here have been omitted due to the status of the consultation
- How new premises are assigned a Retailer. It is unclear as to the relationship between the Retailer engaged in the Developer Services function (with Developers) and the Retailer who will ultimately service the new Business Customer that occupies the premise.

5. Market Governance and Codes

The Water Industry Act 1991 and the draft Water Bill set out some key features of governance of the market. It is recognised that the requirements in this area are not finalised, and the considerations below are based on the current understanding of the draft legislation.

Under whichever market model is finally adopted some rules will need to be defined in relation to the operation of the retail market, and in particular rules will need to be defined to cover the services provided by wholesalers to retailers and the interactions between them. For example, it is likely that the following types of rules will need to be set out:

- Rules on who is eligible for the competitive market;
- Rules on what services can be switched;
- Rules on the charges set by the monopoly wholesaler;
- Rules on other contract terms between the wholesaler and the retailer;
- Rules on how a customer is switched from one retailer to another;
- Rules on ongoing data exchange between market players;
- Rules which set standards for the services a wholesaler provides; and
- Rules on how disputes are dealt with.

As outlined in previous sections, this strawman suggests that there may be role for a Market Operator. Therefore, if a Market Operator will be required, a framework establishing the Market Operator will also be needed. For example, rules may need to be developed to specify the constitution and purpose of the Market Operator as well as its funding arrangements.

Typically, competitive utility markets are governed by a number of documents which set out some of the rules outlined above. These are often called Codes. The legal backing for these documents is typically through the licences of the market participants, although there are other options, and the way they are set out varies between markets.

Governance of the market arrangements (the way they are established and changed, and the roles and responsibilities of participants in these arrangements) might vary depending on the mechanisms put in place.

The number, scope and governance of codes are primarily driven by regulatory decisions and are expected to be determined as part of further stages of market development once an agreed market model has been determined.

Ofwat have indicated that they are planning to publish separate discussion papers on market governance and level playing field issues shortly. Stakeholders' views would be welcome on these documents, in order to inform the development of further thinking in this area.

6. *Transitional Arrangements*

The Water Bill will enable all water and sewerage non-household customers in England to choose who provides their retail, and ultimately their upstream services. Transitional arrangements may be needed to cater for contracts put in place under the current WSL market, which already enables some retail and some upstream competition. These might include:

- Exceptions or exemptions to make legal any existing arrangements which would otherwise be illegal under the new market (for example existing unlicensed arrangements which would otherwise be required to be licensed under the new legislation);
- Provisions to determine if new rules on charges and other terms apply to existing arrangements;
- Decisions on the treatment of existing WSL licensees, and the extent to which their licences automatically transfer into the new regime; and
- Decisions on the extent to which suppliers under the existing WSL regime are required to comply with new legislation, governance and processes.

Existing WSL retail arrangements are likely to remain in place until April 2017 and new arrangements under the existing combined licence can be made up until the water supply upstream reforms are commenced.

Policy decisions may determine whether some reforms should be applied to the existing WSL retail authorisation pre-2017 and to the combined licence ahead of the opening of the water supply upstream market.

These arrangements may be different for pre- and post- retail competition in 2017, and later pre- and post-upstream competition. The extent of transitional arrangements required could depend on both the drafting of new legislation and its commencement; the Programme will track developments and reflect these in the market arrangements as they are developed.

The Open Water programme will be shortly publishing a discussion paper on potential transitional arrangements to full retail competition. Stakeholders' views on this document would be welcome, to inform the development of further thinking in this area.

APPENDICES



Appendix 1 – Sub-activities

As discussed in Section 3, it is for consideration whether the introduction of the three main market facilitation activities should primarily be the responsibility of a new Market Operator – Supply & Service Point Registration, Inter Company Data Exchange and Financial Settlements. Irrespective of who carries out these functions, Retailers and/or Wholesalers are likely to have to carry out a number of supporting or sub-activities.

Some of these potential activities are outlined in the table below, together with potential sub-activities which could be performed by a Market Operator.

Table 7: Potential sub-activities to be performed by market players related to market facilitation

Activity	Sub Activity	Responsible Market Participant
Supply & Service Point Registration	Determining eligibility	TBC, this will be considered further in more detailed market data model design.
	Updating or requesting updates to registration data	Wholesaler and Retailer
	Maintaining record of sites and associated market participants	Market Operator
	Managing queries related to site registration	Market Operator. The extent to which the Market Operator is responsible for resolving queries needs to be explored in more detail
Inter Company Data Exchange	Generation of data flows	Retailer, Wholesaler and Market Operator (in capacity of managing Financial Settlement and Site Registration activities).
	Validation of data flows	TBC, this will be considered further in more detailed market data model design.
	Transmission of data flows received from participants	Market Operator
	Storage of data (Beyond duration necessary to ensure successful transmission, and beyond as required for registration and settlement)	TBC, this will be considered further in more detailed market data model design. There may also be regulatory/ code requirements on retention of data.
Financial Settlement	Calculating wholesale charges	TBC, this will be considered further in more detailed market data model design. In addition, an activity of “deeming” volumes (e.g. via load profiles) may be required for those customers which cannot be measured within the relevant timescales. Further analysis is required.
	Maintaining evidential record of	TBC, this will be considered further in more

Activity	Sub Activity	Responsible Market Participant
	data used in settlement	detailed market data model design.
	Creation of Invoices	Wholesaler and Retailer
	Validating Invoices	Wholesaler and Retailer
	Making Payments	Wholesaler and Retailer
	Processing payments	Wholesaler and Retailer. For the purposes of this strawman, payments are processed directly between market participants.
	Forecasting future demand	TBC, future work will determine exact responsibilities, but the Market Operator and Other Market Participants may have to perform some additional work here.
	Managing credit cover and guarantees	TBC, further analysis is required.
	Managing settlement reallocation agreements	TBC, dependent on whether the Market Operator is responsible for payment processing.

Appendix 2– Assumptions

Key assumptions for the purposes of the development of the options described in this document:

- The new retail market will open in April 2017 with eligible non-household water and sewerage customers in England able to switch their retailer via the new market arrangements from that date;
- Upstream reform will be introduced at some later date to be agreed (after 2019). The design of the retail market will take into account potential future changes resulting from the introduction of upstream reforms where appropriate to do so;
- The new retail market structures will accommodate existing law and there could be transitional arrangements in place prior to market opening e.g. before new licences and systems come online;
- The Water Bill will be implemented as currently drafted;
- The scope of both Wholesale and Retail will be consistent with Ofwat's price control methodology;
- Combined licences will be retained until Wholesale Authorisations are introduced;
- Retail definitions do not have to be the same in England and Scotland;
- The English and Scottish Markets will be interconnected and compatible, providing a seamless customer experience; and
- There will be a level playing field within the market.

Appendix 3 – Market Consistency

To achieve the objectives of water market reform it is highly desirable, and in many areas absolutely necessary, to have consistency in the market design. Achieving consistency will help ensure a seamless customer experience, reduce operational inefficiencies inherent in managing inconsistency, enable a level playing field for participants, and encourage new market entrants through reducing barriers to entry associated with complexity.

The delivery of water market reform will therefore work to: **“Ensure an appropriate level of consistency in the market design, such that the expected benefits of water competition are realised”**¹⁴, with the Programme working to ensure reasonable consistency:

- For all market participants, principally customers, retailers, and wholesalers.
- In all dimensions across which a customer, retailer, wholesaler or other market participant may require or desire consistency. This includes, but is not be limited to, consistency across country, wholesale region or any other geographic boundary; customer segment; and product / service.

Ensuring the English market is internally consistent, for example consistent across wholesale regions, could be achieved through “designing for consistency” in all delivery activities. For example, ensuring that market processes, codes of practices, and consumer protections are the same, so far as is reasonably practical. Designing for consistency is expected to require delivery activities to be benefits-centric, so as not to lose sight of the end objectives of market reform, and to determine what is appropriate, rather than what is just desirable, by ensuring the design is proportionate and deliverable.

The market design will seek to be consistent with the existing competitive Scottish water market, through liaison between DEFRA and the Scottish Government, and between Ofwat and WICS, to ensure a shared understanding of respective policy and regulatory objectives for the water and wastewater sectors and within the Open Water programme. The development of the English market is expected to take as an input the present market design in Scotland, and utilise this in England where appropriate, recognising that the legislative and structural arrangements in Scotland are different from those in England and Wales. Where the English market delivers capability different to that presently in the Scottish market, it will be for the Scottish Government and WICS to determine if they wish to adopt such approaches in the Scottish market.

It is intended that it should be possible to extend the English market to include Wales in the future, should the Welsh Government so wish. The Welsh Government are observers in the High Level Group, and market deliverables will be made available to them to review and advise on potential Welsh consistency and compatibility issues throughout the delivery of the market.



¹⁴ DEFRA Impact Assessment 1346, 24th November 2011



Appendix 4 – How a Wholesaler gets paid for commodities and services provided

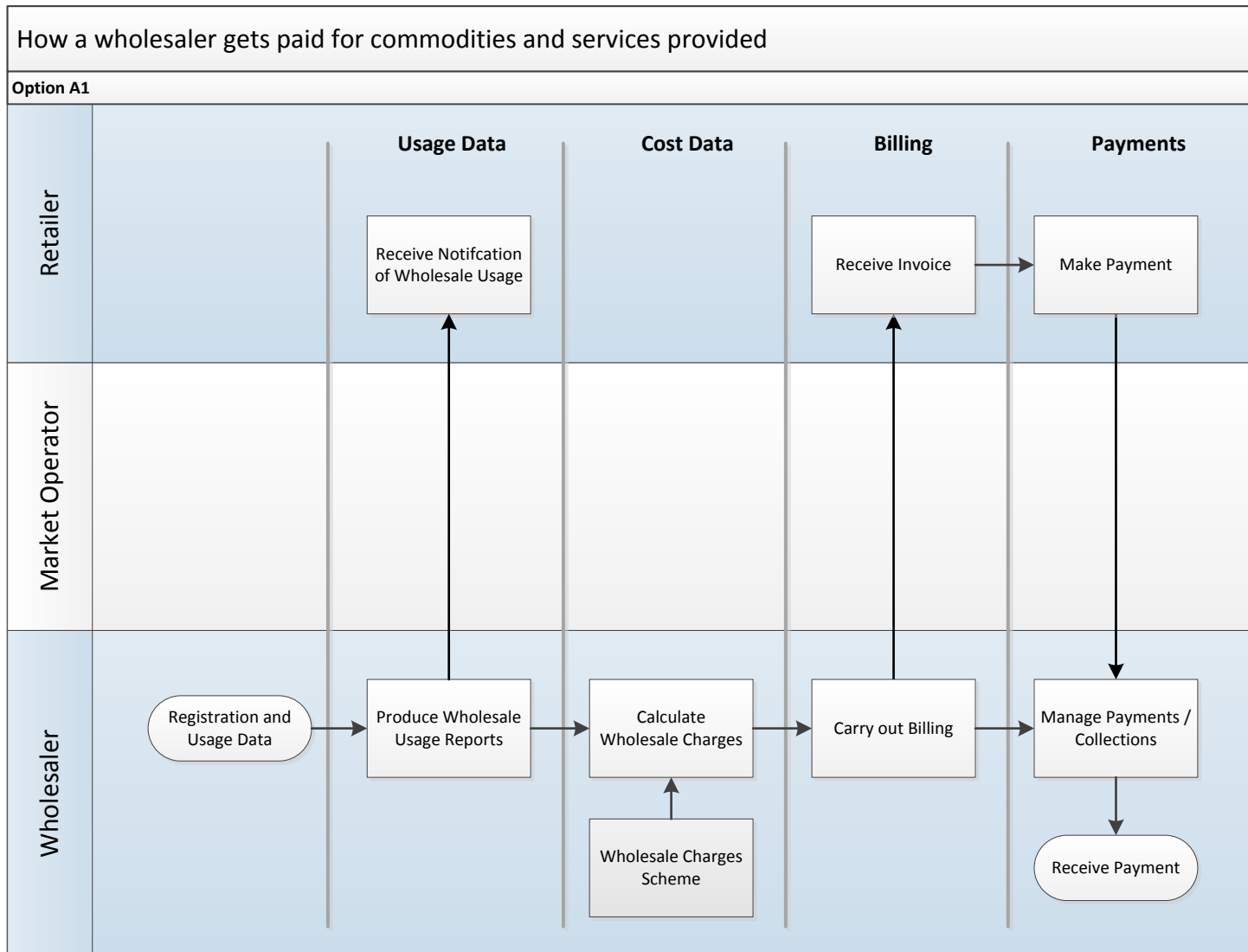
This worked example starts with a relevant party using market data to generate usage data for Retailers and Wholesalers and ending with the Wholesaler receiving payment for the wholesale services provided.

As outlined in Section 3.5.2, there are a number of options around who carries out the market facilitation activities of registration and financial settlement. These range from the Market Operator having no role in this respect, to the Market Operator undertaking all of the activities outlined above.

The figures below provide an overview of this worked example from the perspective of different market players under the various options identified. As a reminder, these options are:

Option A1:	distributed registration and switching administration	+	distributed financial settlement roles (all)
Option B1:	central registration and switching administration	+	distributed financial settlement roles (all)
Option B2:	central registration and switching administration	+	central collation and distribution of usage data but distributed charges calculation and billing, payments and collection roles
Option B3:	central registration and switching administration	+	central collation and distribution of usage data and charges calculation but distributed billing, payments and collection roles
Option B4:	central registration and switching administration	+	centralisation of all financial settlement roles

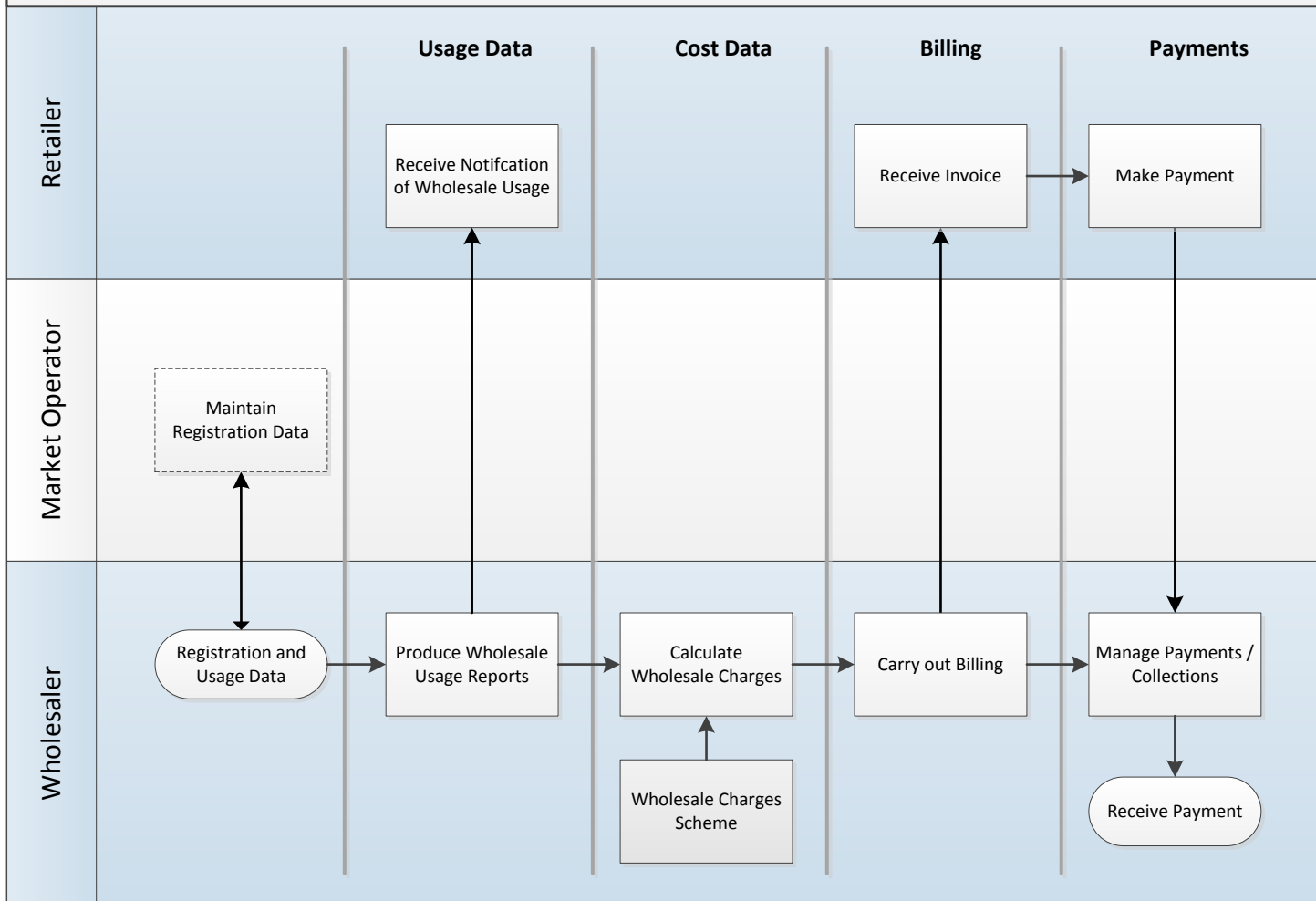
Overview – Option A1



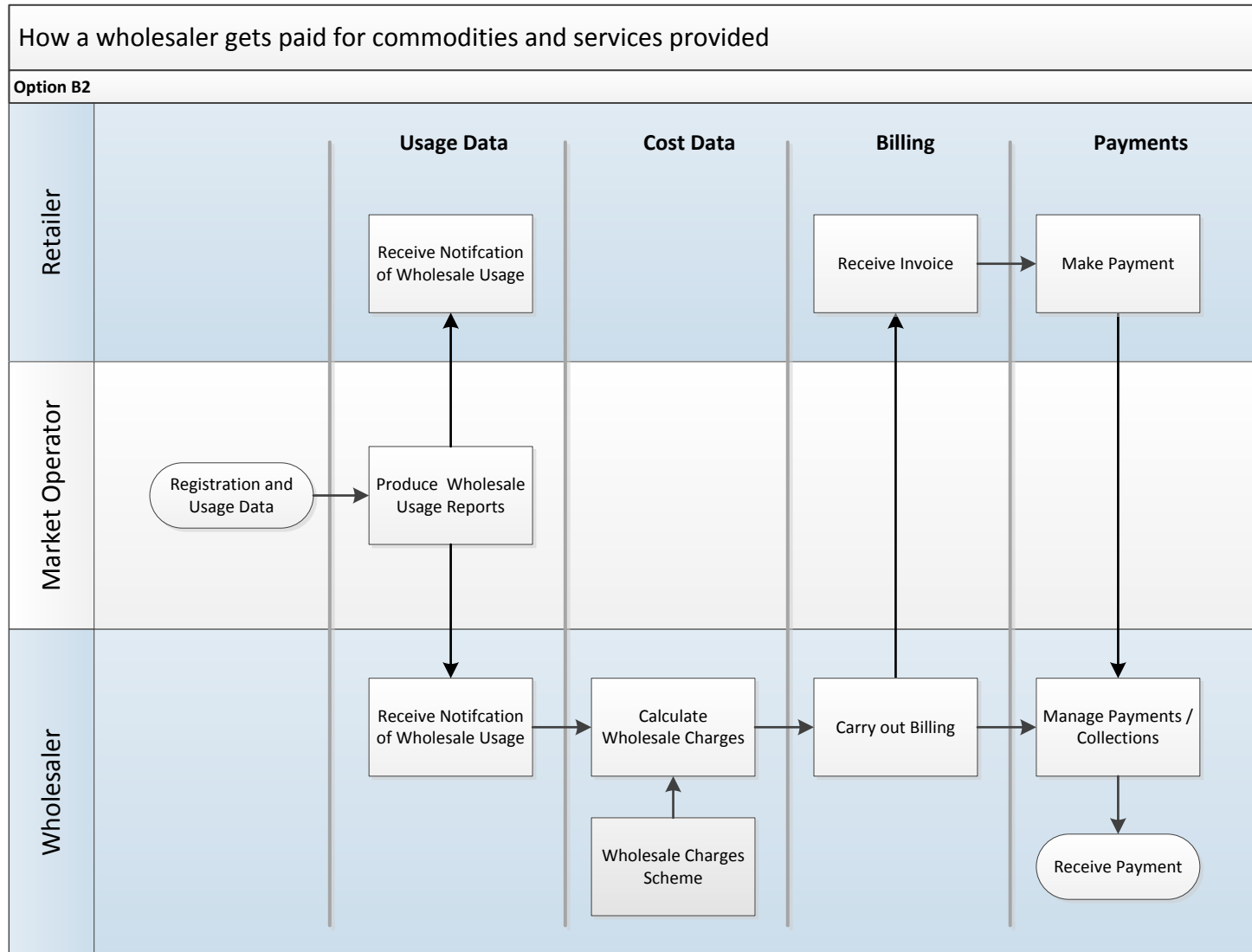
Overview – Option B1

How a wholesaler gets paid for commodities and services provided

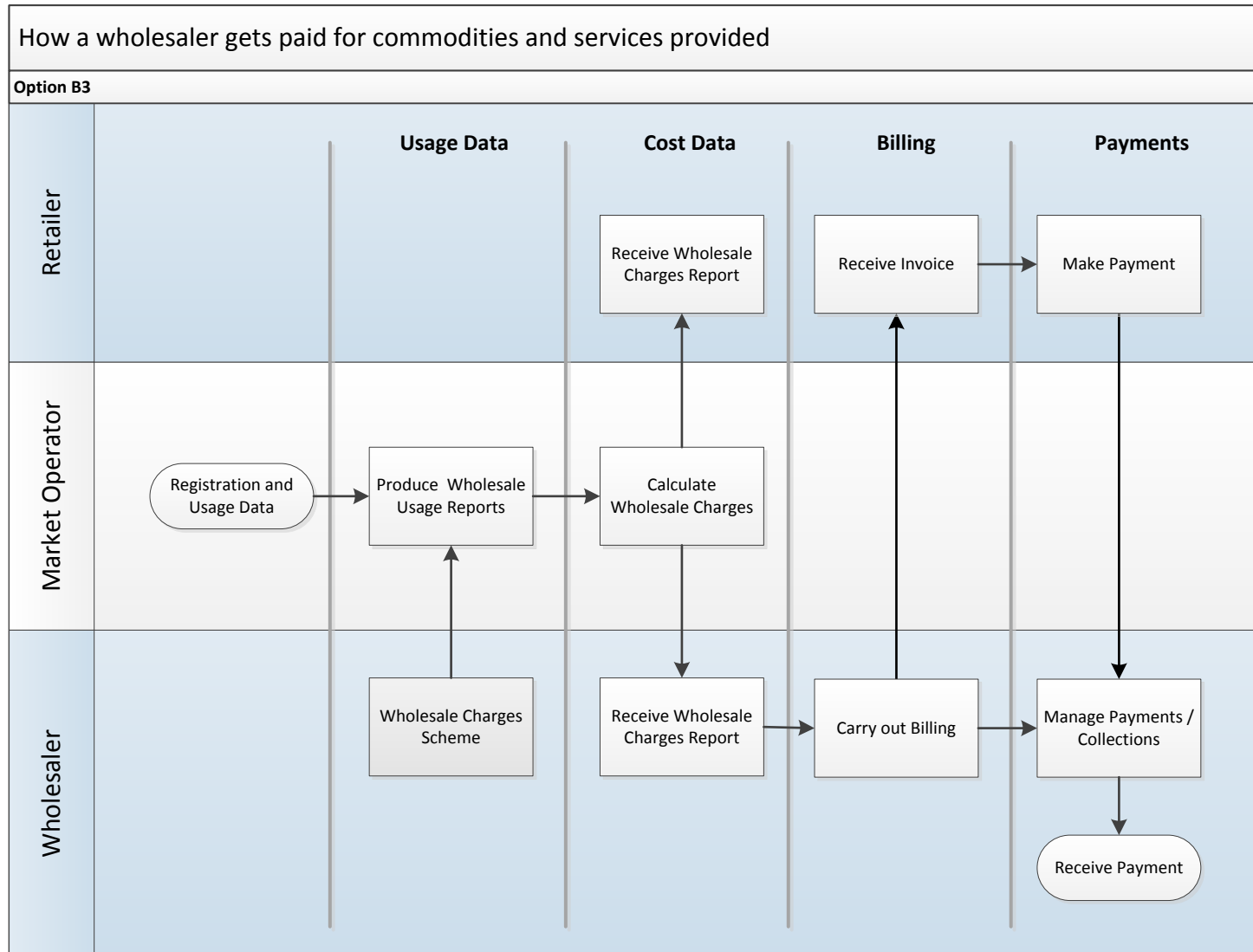
Option B1



Overview – Option B2



Overview – Option B3



Overview – Option B4

