

Estimated costs of non-household retail market opening

The UK Government has asked Ofwat to provide an assessment of the costs and benefits of extending retail competition to household customers in England. Ofwat has invited evidence from stakeholders to contribute to this review, and has identified the potential cost of implementing a household retail market as a key question.

The costs of implementing this market would depend on its design– for example whether it was a “thin” market where the scope of the market activities was limited to providing core retail services or a “thick” market, which could include more activities.

However, a starting point is the costs already incurred, and projected, for the development, implementation and initial operation of the retail market for non-household customers in England, where the market is due to open in April 2017. It should though be noted that household and non-household markets would be of materially different scale – there are over 20 million household customers in England but only 1.2 million non-household customers.

There is publicly available information¹ on the costs of the programme to deliver the central systems and process for the non-household market (Open Water), but this only constitutes part of the costs of market implementation.

As is widely recognised, the majority of costs are incurred directly by market participants and there is limited publicly available information on these costs.

This note adds to the available information by providing a summary of the costs incurred and projected by water and water and sewerage undertakers in England in establishing the essential systems and process required for the market to open and operate.

This note does not include costs associated with the establishment and operation of competitive retail service providers, and promoting services to customers, and so does not seek to present a complete picture of the costs of establishing and operating the non-household market.

As information relating to individual companies is commercially and market sensitive, information is provided at an aggregate industry level.

¹ For example *Open Water budget update November 2015*, *Open Water and Revised budget 2016-17*, *MOSL*

Information was collected from individual companies using a standard template designed to capture costs incurred solely because of the establishment of the non-household retail market in England.

The large majority of the information provided by companies has been used directly in the summary table below, although due to differences in the way that individual companies provided information, some extrapolation and judgement has been required to produce the industry level information in the table.

This information should therefore be regarded as intended to provide a reasonable assessment of the estimated costs incurred by companies; it has not undergone external assurance.

Estimated costs of the retail non-household market in England

	Pre-market opening costs (2014-15 to 2016-17 total, £m)
Central programme	38.2
Internal programmes	43.5
Market readiness	105.8
Wholesale service centre development	13.9
Sub total	201.4
	Post-market opening costs (2017-18 to 2019-20 total, £m)
Expected market operator charges	25.2
Wholesale service centre	49.8
Compliance and equivalence	4.5
Sub total	79.5
Total	280.8

Note: numbers may not sum due to rounding

Explanatory notes for cost categories

Central programme

Includes funding for the Open Water programme provided by companies through Ofwat special licence fees, contributions to Open Water Markets Ltd (OWML) and funding for Market Operator Services Ltd (MOSL). Costs are taken from information published by Open Water and MOSL.

Internal programmes

Includes costs associated with market reform change programme teams, attendance and participation in external workshops, senior level engagement, input into policy development, and third party assurance provided to companies. Where companies have funded additional contributions to support the central programme these are included in this category.

Market readiness

Includes costs associated with data readiness and information systems costs related to wholesale and retail business and the establishment of new interfaces. Includes physical and system separation of retail and wholesale activities, and training and communication on compliance and equivalence

Wholesale service centre

Costs associated with the establishment of new roles and systems to provide a wholesale service centre interface for retailers (pre-market opening) and on-going service delivery and systems maintenance and development (post-market opening).

Compliance and equivalence

Costs associated with the post market opening on-going training and communication and audit and compliance reporting.

Expected market operator charges

The figure of £8.4m in the table above is the mid-point of the range of £7.6 - £9.2m provided by MOSL as a likely annual enduring market operator cost. MOSL has noted that these costs are early estimates and are highly likely to change, and that the 2017/18 budget will need a substantial provision for changes to codes and systems in the first full year of the market being open as experience grows.