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By email

A joint Ofwat – Environment Agency open letter

17th March 2020

Dear Chief Executives¹

Delivering greater water efficiency in the business sector

In April 2020 it will be three years since the introduction of retail competition to the non-household (i.e. business) water market in England. One of the main reasons for enabling business customers to choose their provider was to encourage and further improve water efficiency, promoted through competitive offers made by retailers.

The business retail market accounts for nearly a third of all water delivered to customers in England. This means improved water efficiency in the business sector can contribute significantly to meeting national needs for delivering water on a long-term, sustainable basis. These needs have recently been confirmed in the Environment Agency's [Meeting our Future Water Needs: a National Framework for Water Resources](#). This sets out the importance of all industry parties helping to improve security of supplies and drought resilience.

It follows that improving water efficiency in the business retail market is a high priority for Ofwat, the Environment Agency and Defra. We expect wholesalers and retailers to deliver improved levels of water efficiency in the non-household sector, under their statutory duty to promote efficient use of water by their customers (WIA91, s.93A).

Some business customers are already actively pursuing more efficient use of water - for example three self-supply retailers have reported savings of around 150 megalitres in 2018. And Business Stream has committed to helping its customers save 20% on their water usage. However - overall - offers and take up of water efficiency services have been small, which means the business sector is not currently playing its part in meeting national needs for delivering water on a long term, sustainable basis.

We recognise that there are challenges in improving water efficiency and reducing demand. For example, Ofwat has reported² a number of inherent problems in the business retail market, including a lack of complete, accurate and timely meter reads, which can undermine retailers' and customers' ability to measure and manage water efficiency. It is our view that

¹ Of authorised wholesalers and licensed retailers in England and Wales

² Ofwat has identified three principal market frictions, which are inhibiting the development of a more effective market - see Ofwat's [State of the market report 2019](#)

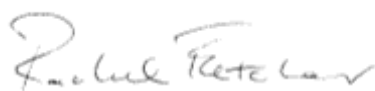
these challenges can and must be met. Ofwat, the industry and MOSL are working to address the market frictions through a number of targeted initiatives. Ofwat expects both wholesalers and retailers to fully support these initiatives.

We also believe there are further steps that industry must take to improve levels of water efficiency and we set these out in the Annex. To ensure the business sector plays its part in meeting national needs for delivering water on a long term, sustainable basis, wholesalers and retailers should take the actions and address the areas set out in the Annex as a priority.

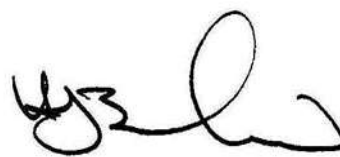
We also request wholesalers and retailers to work together to produce a joint industry plan of action, which also sets out how they intend to work together to develop and deliver 2024 WRMPs that deliver significantly improved levels of water efficiency in the business sector. The joint action plan, which should clearly set out how progress can be monitored between now and 2024, should be developed within six months of receipt of this letter so it can be presented to a group set up as part of a new monitoring and reporting framework to report on progress on demand management. This group will be set up in early 2020 through our work with government on the national framework. The recently established Retailer – Wholesaler Group (RWG) water efficiency sub group, comprising wholesaler and retailer representatives, would be ideally placed to coordinate production of the joint action plan. Companies could also consider how they will make use of their websites, social media channels etc. to publicise the action they are taking on water efficiency and to raise awareness.

Ofwat and the Environment Agency will monitor progress and also look at ways to improve performance if required. If progress is made over the next 2 years, it will contribute to more efficient non-household water use and cost savings for businesses, increase the resilience of our water supplies and deliver benefits for water customers and the environment. We also welcome suggestions on what more could be done to further improve levels of water efficiency in the non-household sector - both from industry as well as other stakeholders.

Yours sincerely



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Chief Executive
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Steps that industry must take to improve levels of water efficiency

A. Water Resource Management Plans (WRMPs): Collaboration between wholesalers and retailers

- Wholesalers are required to prepare Water Resource Management Plans ('WRMPs') that plan for a minimum of 25 years and identify the interventions (demand and supply management) to ensure resilience to drought.³ Preparation for the next set of WRMPs is underway and we expect these plans to include ambitious water efficiency savings from the non-household sector. There are two important areas for the industry to address:

i. Retailer – wholesaler engagement

- It is essential that wholesalers and retailers engage early on the development and delivery of WRMPs⁴. Wholesalers should start thinking ahead to the next price review and how they can work effectively with retailers when developing their WRMPs ahead of PR24. It is also important that retailers work with both wholesalers and customers to ensure that customers' needs are reflected in the WRMPs, associated wholesalers' planning, and that the business sector makes an appropriate contribution to the delivery of overall water efficiency.

ii. Competition Act 1998 concerns

- Some wholesalers have voiced concerns that they are not permitted to act in the business retail market because of their obligations under the Competition Act 1998. The concerns relate to contacting or working directly with retailers and end business customers in order to improve water efficiency.
- Provided wholesalers, retailers and other stakeholders act in compliance with competition law, we see no reason why they should not work together towards identifying and delivering ways for business

³ Wholesalers last updated their WRMPs in 2019 ('WRMP19'), with the next update due in 2024. Preparation for these will need to begin well in advance, and take account of the Water Resources National Framework.

⁴ For example as Ofwat highlights in the [annex to Ofwat's recent PR19 determination](#).

customers to use water more efficiently and reduce leakage.⁵ This means among other things that a wholesaler may work with retailers on a non-discriminatory basis to offer water efficiency advice and services to end business customers, and in ways which preserve retailers' and other stakeholders' scope to do the same. For instance, Thames Water is currently running a trial scheme in which Thames Water rewards in-region retailers with a one-off payment of 5p per litre per day of water saved for each of their non-household customers.

B. Water consumption data: Improving meter reading and data quality

- MOSL is working with industry to improve the frequency and accuracy of meter reads. Ofwat is committed to supporting MOSL with these initiatives and we expect the industry – both wholesalers and retailers – to support and take forward this work. Given that industry is subject to a self-governance framework in the business retail market, wholesalers and retailers can pursue amendments to market codes. This includes those relating to metering and meter reading, or where amendments may facilitate better or more cost effective provision of water efficiency services.

C. Coordination during unplanned events and incidents

- Retailers are the primary point of communication with business customers, but wholesaler actions can materially influence the service and information that those customers receive. For example, in times of supply shortages, a wholesaler may need to introduce restrictions. Wholesalers and retailers have recently developed [Good practice](#), and adopted market code changes, to better govern how they should coordinate and communicate with customers, for example to ensure that customers are prepared for any service restrictions. This is a good starting point but we think more could be done to proactively reduce and manage the risks and impact of any supply restrictions. For example we expect wholesalers to gauge if and where restrictions on use may need to be prioritised, and to work with retailers to ensure this data is shared with customers in a timely manner.

⁵ Guidance on compliance with competition law obligations is available both from Ofwat ([Guidance on Ofwat's approach to the application of the Competition Act 1998](#)) and the CMA ([CMA Competition Act, Cartels](#)).