August 2020

State of the market 2019-20: review of the third year of the business retail water market

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Executive summary

This is our third report on developments in the business retail market, covering the third year of its operation from April 2019 to March 2020. It updates our first and second reports - Open for business July 2018 and State of Market Report 2018/19 July 2019. This year we have presented the report and the findings of our reseach using an interactive report format.

The third year of the market has seen customers who are active, in particular those who have switched or re-negotiated new deals, continue to benefit. Our research suggests for example that around 90% of those who switched or re-negotiated in the last 12 months, reported having received some form of benefit as a result, with the most commonly reported benefit a price saving.

However, benefits – in terms of money, water and time saved - have tended to accrue more strongly to larger, higher consumption customers; in part because they are also more likely to be aware of the market and to be active. Many smaller customers, who continue to be less aware of and less active in the market, will remain protected by our updated price and non-price protections that came into effect in April 2020.

Key findings for the third year of the market include:

• Awareness levels have increased – just under three fifths (58%) of eligible business customers are now aware that they have a choice of retailer, up from 53% in 2018/19. Almost all (96%) of large customers are now aware.

• Customer activity levels have been broadly steady. Just under 8% of eligible customers were active in the last 12 months, rising to 16% of larger SME customers (50-249 employees) and 26% of large customers (250+ employees). The annual rate of switching and/or re-negotiating remains at around 4%.

• Satisfaction levels remain stable, with 78% of customers reporting that they are satisfied with their current provider. Complaint levels recorded by the Consumer Council for Water (CCW) have fallen. However, it remains clear that where customers are dissatisfied or have lodged complaints, the main issues are still customer service and problems with billing.

• Take up of water efficiency services has improved but remains low. For example only around one in twenty (6%) switchers in the last 12 months reported receiving new water efficiency or leak detection devices as a result of switching.

• New entrants are aquiring more customers - at the end of year 3 new entrants (those who entered the market without acquiring a customer base from the previous monopoly incumbents) are gaining around 1% market share per year.

• Self-supply continues to be a popular option amongst larger customers – in year 3 an additional 3 self-supply licences were granted (Nottingham City Council, John Lewis Plc, and Kelloggs), bringing the total to 12 as at end March 2020.

In our report on the market's first year of operation we identified three main market frictions that were impeding the market from operating more effectively: poor quality consumption, customer and asset data, cumbersome and inefficient Wholesaler - Retailer interactions, and inadequate wholesaler performance.

In our report on the market's second year of operation we noted that progress to resolve frictions had been slow and called on trading parties to take decisive and swift action to resolve market frictions.

Our assessment of year three is that industry efforts to improve market functioning have accelerated, aided by collaborative leadership from the market operator (MOSL). However, as detailed in our recent report on incumbent company support for effective markets, we find that resolution of market frictions continues to require urgent attention from all trading parties, if the improvements we have seen to date are really going to gain traction and increase going forward. MOSL has set out a programme of work to support more effective market functioning and we strongly encourage trading parties to work collaboratively with MOSL in delivering this.

Review of the third year of the business retail water market

Using Power BI

The business retail water market is now in its fourth year. Since 1 April 2017 around 1.2 million business customers in England and Wales have been able to choose their water service retailer, allowing customers to choose a service and tariff which suit their business needs and preferences. This interactive report sets out our assessment of the state of the business retail market in its third year of operation (April 2019 to March 2020). It is our third annual review, and updates our previous assessments which were published in July 2019 (State of the market: reviewing the second year of the business retail market) and July 2018 (Open for Business).

For year 3 (April 2019 to March 2020) we have published a data-based interactive report. In doing so our aim is for the reader to more easily draw insight about how the market is operating from a variety of data sources. We have included information from:

- the Market Operator (MOSL);
- information provided by Retailers in response to an Ofwat Request for Information (RFI); and
- quantitative and qualitative customer research undertaken by BMG Research on behalf of Ofwat and CCW to form our Non-household Customer Insight Survey 2020 (CIS 2020). Further detail can be found in the full reports – Non-Household Customer Insight Survey BMG Final Report 2020, Non-Household Customer Insight: SME Interviews BMG Final Report 2020, Non-Household Customer Insight: Third Party Intermediaries Interviews BMG Final Report 2020. Note, comparison customer research data and results for 2018/19 can be found here (CIS 2019).

In this report we provide an assessment of how customers are engaging with the market, how and where customers are benefiting or experiencing difficulties, how the market is evolving and how it is functioning. This interactive report can be navigated using the menu below or using the left/right arrows at the bottom. For further guidance please click on the 'Using Power BI' button at the top of this page.

Customer Landscape

Awareness and engagement
- Awareness and activity
- Switching and renegotiating
- Searching and comparing

Customer Outcomes
- Motivations for switching
- Customer satisfaction
- Customer benefits

Market Evolution
- Market shares
- Retailer and TPI offerings
- Water efficiency

Market Functioning
- Market Frictions
- Market Frictions (cont)
- COVID-19

Customer landscape

There are around 1.2 million customers in England and Wales eligible to choose their retailer for water and waste water services. How customers benefit or experience the market is likely to be influenced by their consumption and expenditure profiles, as well as how important water services are to their businesses. The table and graphs below outline some key characteristics of the distribution of customers in the water business retail market.

Aggregate annual consumption by these customers is about 1.5 million Ml. The majority of eligible business customers (about 86%) are microbusinesses with up to 9 employees. However, they are generally small consumers of water and together account for only 11% of clean water consumed in the business retail market. Large customers (250+ employees) by contrast account for less than 1% of customers in the market, but account for about 64% of clean water consumption. This difference in usage is also reflected in annual expenditure, as for microbusinesses average expenditure on water is comparable to an average household, whereas for medium and large companies annual bills can exceed £100,000. Consumption categories used by MOSL run from M1 - M9. The table below shows our approximate mapping of these categories to business size.

Business Size	Number of eligible businesses	As a % of total	Consumption %	Range of expenditure (£, CIS)	Average annual spend (£, RFI)	MOSL Categories
1. All eligible business customers	1223000	100%	100%	<£500 - >£100,000	£1,400	M1 - M9, uncategorised
2. Microbusiness (0 - 9 employees)	1056000	86%	11%	<£500 - £9,999	£350	M1 - M3
3. SME (10 - 249 employees)	162000	13%	25%	<£500 - >£100,000	£2,500	M4 - M6
4. Small businesses (10 - 49 employees)	136000	11%	n/a	<£500 - £100,000	n/a	n/a
5. Medium businesses (50 - 249 employees)	26000	2%	n/a	<£500 - >£100,000	n/a	n/a
6. Large business (250+ employees)	5000	0%	64%	£1,000 - >£100,000	£35,000	M7 - M9

Sources: MOSL, CIS 2020, RFI

Awareness and engagement

Since market opening eligible customers have been able to chose who provides their water and wastewater retail services. For customers to benefit from the market they must be aware of the possibility to switch, able to assess the market by searching for and comparing offers, and to secure better deals by switching quickly and easily to retailers better able to meet their needs, away from those they are dissatisfied with, or re-negotiate deals with their existing provider.

The first two parts of this section therefore assess how awareness and activity have changed in year 3 of the market, and how this has manifested in annual switching and re-negotiating rates. Customer engagement in the market, including their ability to find and switch to a better deal, depends on how easy it is for customers to shop around. Searching and comparing presents evidence from our customer insight survey (CIS 2020) on how customers find information to make informed choices about their retailer.

Awareness and activity

Switching and renegotiating

Searching and comparing

Awareness and activity

Since the market opened in April 2017, the number of eligible customers who are aware of the market, ie. that they can change the company providing their water and wastewater retail services, has been slowly increasing. At the end of year 3 just under three fifths (58%) of customers are now aware; a significant increase on the 53% aware in year 2. However, increases have been patchy with SME awareness largely static while 96% of larger customers are now aware. CIS 2020 qualitative research of SME customers' experiences found that general levels of knowledge about the market were low, even among those who had switched – particularly if they had used a broker or TPI to switch. Within the SME category utility management was typically a responsibility held in conjunction with others, particularly for smaller organisations. Diluted responsibility here may help to explain lower awareness and engagement levels among SME customers.

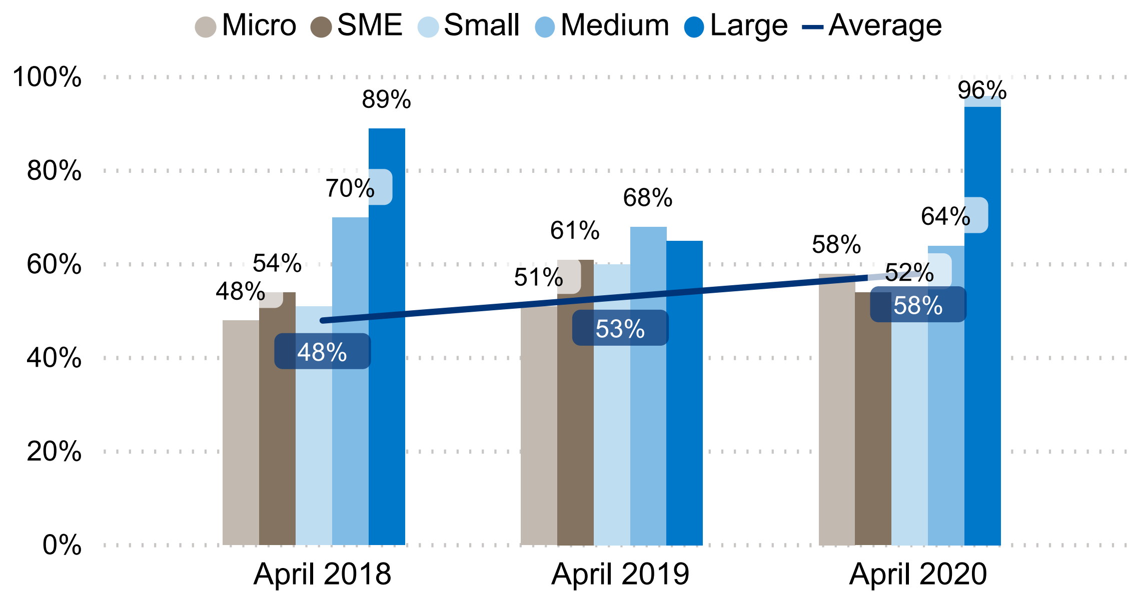
In all fairness, it's not one that I know that much about. I know more about gas and electric than I do water.

Switched, Small, Education.

It would be an additional job. Some of it falls to me. My position is property manager, so I tend to look after the fabric of the building and utilities, really.

Considered/considering, Small, Health.

Awareness by business size and year



Source: CIS 2020

CIS 2020 research suggests around 1 in 12 (~8%) of all eligible customers were 'active'* in the last 12 months, ie third year of the market. Medium and large customers were more likely than average to have been active in the last 12 months (8% for microbusinesses, 16% for larger SME businesses, and 26% for large businesses). Customers active in water were also more likely to have been active in other utilities, ie a significantly greater than average proportion of them had also switched gas/electric in the last 12 months (56%) and telecoms/internet (36%).

* **'active'** denotes all customers who have switched or re-negotiated (3.8%), actively considering switching or re-negotiating (2.2%), those had tried to switch or re-negotiate (<0.1%), those in the process of switching (0.2%), and those who had considered switching or re-negotiating but had decided not to (1.6%).

Business size	Active (in last 12 months)
1. All	8%
2. Micro	8%
3. SME	8%
4. Small	6%
5. Medium	16%
6. Large	26%

Source: CIS 2020

Switching and re-negotiating

The annual rate of switching and/or re-negotiating has broadly remained stable into year 3 at about 4% (CIS 2019, 2020). Annual switching rates have fallen at 1.4% in 2019/20 (vs. 2.7% in 2018/19); furthermore, on the basis of MOSL data, there is a slight downward trend as fewer SPIDs were switched in year 3. However, in terms of the volume of consumption switched, this has increased slightly returning to similar levels seen during year 1 of the market. Retailer RFI data indicate a steady annual switching rate with around 2% of customers switching around 5% of consumption each year. CIS 2020 results indicate that as the market matures some customers have switched more than once, for example, around 4% of those customers who have ever switched have switched more than once, with this rising to 9% for large businesses.

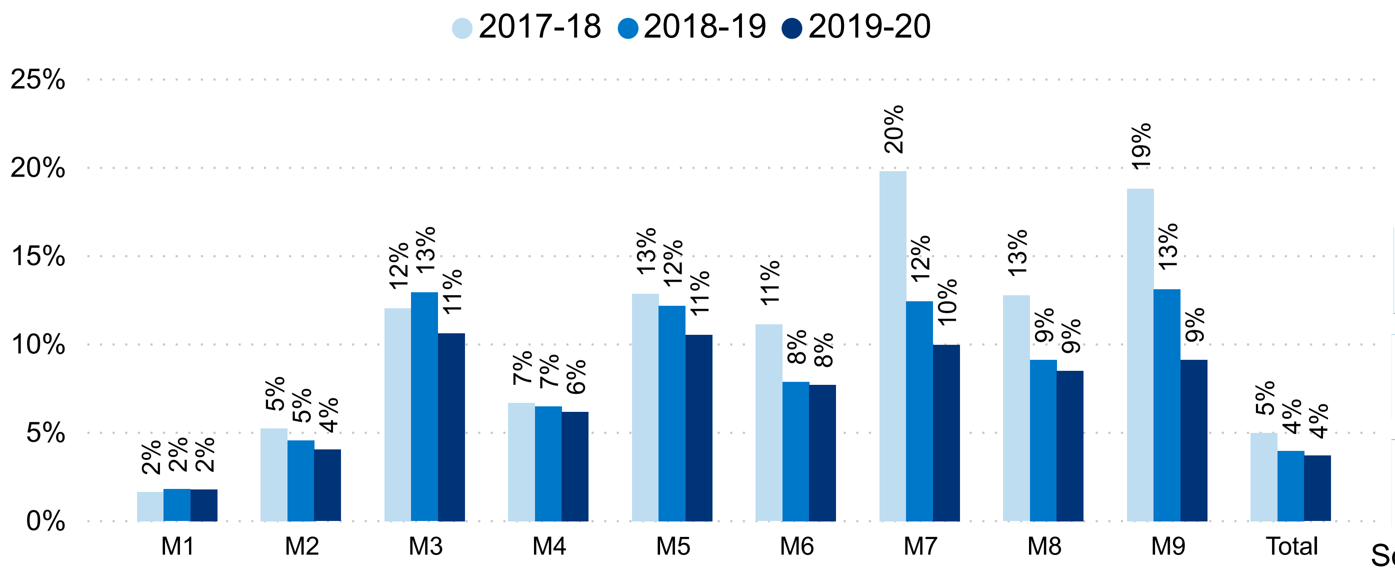
Switching and re-negotiating rates from difference sources

Data Source	MOSL			CIS			RFI *					
% of Market Share	Consumption switched	SPIDs switched	Revenue switched	Customers switched	Customers renegotiated	Switched or renegotiated	Billing accounts (switched)	Consumption (switched)	Revenue (switched)	Billing accounts (renegotiated)	Consumption (renegotiated)	Revenue (renegotiated)
Apr 2017 - Mar 2018	9	5	10	3.0	0.9		1.3	4.7	3.4	1.7	4.1	3.5
Apr 2018 - Mar 2019	6	4	8	2.7	2.4	4.0	3.3	9.6	10.6	1.9	4.5	4.1
Apr 2019 - Mar 2020	8	4	7	1.4	2.4	3.8	5.6	15.7	15.0	3.6	11.4	10.7

* RFI figures set out cumulative switching rates since market opening.

Sources: MOSL, CIS, RFI

MOSL: Proportion of supply points switched in each consumption category



MOSL

CIS

RFI

Sources: MOSL, CIS, RFI

CIS 2020 data indicate that the distribution of switching and re-negotiating amongst different sized organisations in the past 12 months was more homogenous than in previous years. Our customer research (CIS 2019), for example, suggested that in 2018/19 17% of large organisations had switched or re-negotiated in the last 12 months, compared to 2.6% for 2019/20. Switching rates for large customers are now similar to those of microbusinesses and SME's (though note CIS 2020 also found that 19% of large customers were currently in the process of switching). A similar trend is apparent in data provided from MOSL, which shows that there has been a greater decline in the switching rate for larger users (consumption categories M7 – M9) over the past three years compared to the smaller consumption bands.

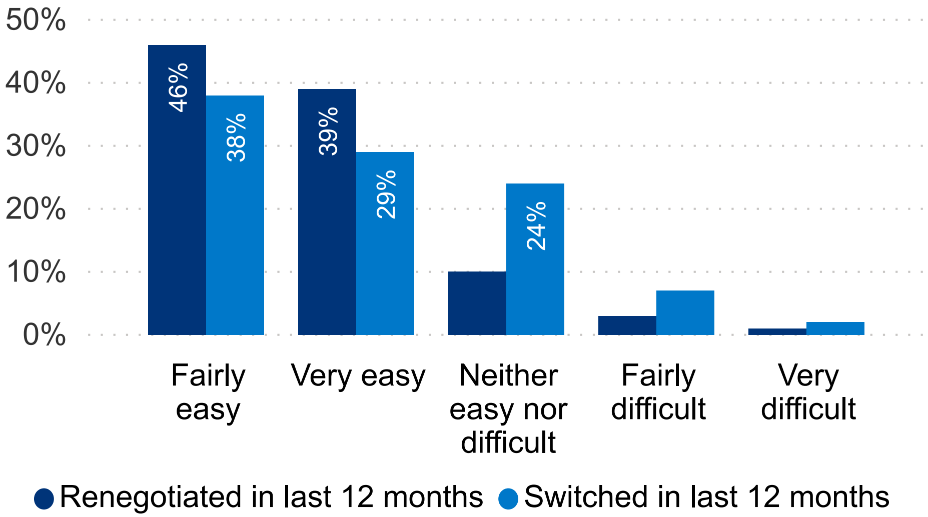
Searching and comparing

Of those customers who had switched, re-negotiated or considered doing so in the last 12 months, 77% used at least one source to search for information. Brokers were the most popular source for all those who searched for information (34%) followed by direct contact with another retailer (32%). The proportion of these customers who did not search (14%) is significantly down from last year (30%) however, when considering just switchers in the last 12 months this rises to 21%. A fifth (20%) of customers who switched or re-negotiated in the last 12 months said they used a price comparison website; an increase from last year (14%)(All CIS results).

Similar to last years results, the majority of customers who searched (80%) found it 'easy' to search for information in the market, with 17% saying they found it difficult. Most customers who compared retailers also found this easy to do (78%), which is a notable increase from last year (40%). Of the 6 customers who found it difficult to compare different retailers, half said it was because the information was not available via their preferred method of communication. Despite the majority saying that finding information and comparing retailers was easy, we find that a substantial proportion of customers obtained relatively few quotes when looking into switching with 28% of those who switched in the last 12 months receiving no quotes.

How easy was:

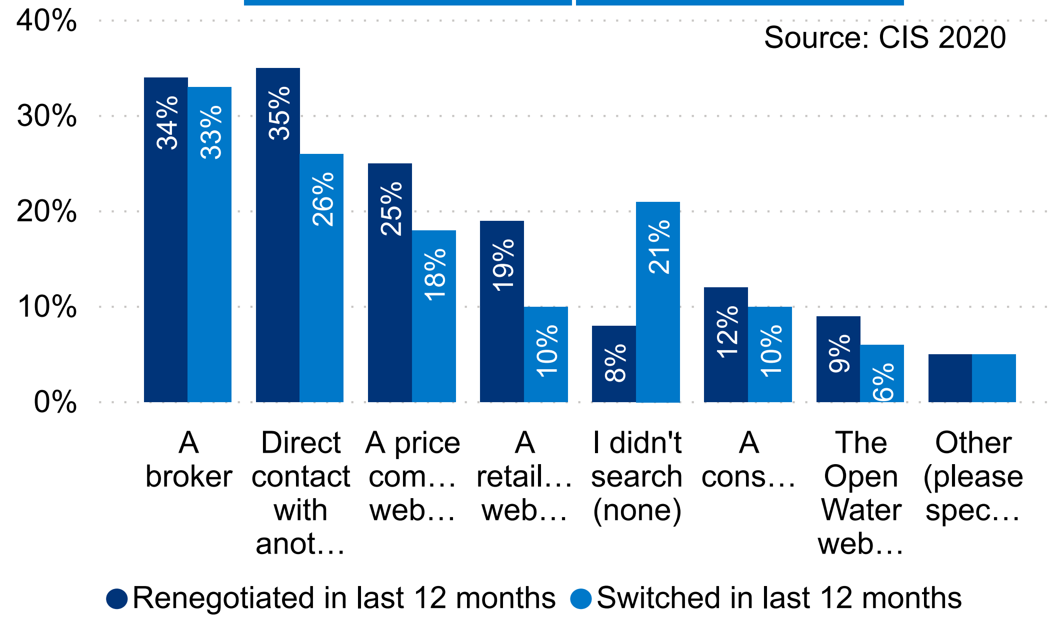
Comparing retailers
Finding information



Source: CIS 2020

Sources of information for those who switched or renegotiated

Renegotiated in last 12 months
Switched in last 12 months



Source: CIS 2020

The CIS 2020 qualitative SME research found that customers could be broadly classified into two groups - 'self-actuated' or 'externally actuated', the former representing customers who had decided to switch themselves compared to the latter who tended to be prompted by external parties, such as third party intermediaries (TPIs), brokers or retailers. For 'self-actuated' customers the majority of their research was generally conducted online and through price comparison websites, with few problems reported. 'Externally actuated' customers reported doing little or no research themselves, instead often relying on a TPI or broker. The research suggested that the majority of customers who used a TPI enjoyed the "hands-off" approach.

When asked about the switching process, of those who switched in the last 12 months, 87% found the process easy while 8% found it difficult. This was also reflected when customers were asked if they were happy with the time taken for the switch to take place with the majority of switchers satisfied (85%) and 8% dissatisfied. These results are in line with the previous years results and with the qualitative SME research.

Customer Outcomes

Markets that work well can deliver a wealth of benefits for customers, society and the environment. They drive innovation, improve performance, provide greater choice and quality of service as well as lower prices. Our vision of a well-functioning and competitive business retail market remains one which enables customers to save money, water and time.

This section reviews key customer outcomes in year 3 of the market, focusing on motivations for switching or re-negotiating, satisfaction and complaints, and customer outcomes in terms of money, time and water saved. We have drawn on CIS 2020 results (quantitative and qualitative) to inform our assessment here, as well as complaints data from CCW.

Motivations for switching

Customer satisfaction

Customer benefits

Motivations for switching

As in previous years, price and a desire to reduce bills remain the principal reasons for customers to switch, re-negotiate, or consider switching or re-negotiating. Aside from contact with, or prompts by, a broker or TPI, customers' desires to achieve some form of better service – be it more detailed billing, or better service when contacting the retailer – are also significant drivers.

For customers who are less interested in switching or engaging, it appears that the perceptions of the benefits, such as price savings, are 'low' compared to the potential costs and risk of engaging, such as time spent searching and comparing. Of those customers who haven't considered switching or re-negotiating, or who plan to do so, a third (34%) cited 'no point in switching', 'service is good/ happy with retailer' (25%), and 'too much effort to switch" (10%)(CIS 2020). Given that smaller consumption customers tend to make smaller financial savings from switching, it may be that these perceptions are one reason smaller consumers are less engaged and active in the market. Interviews with SME customers, and TPI's, as part of our CIS 2020 research echoed these points, suggesting in particular that SME customers who had not engaged often saw little benefit in doing so (for examples see quotes).

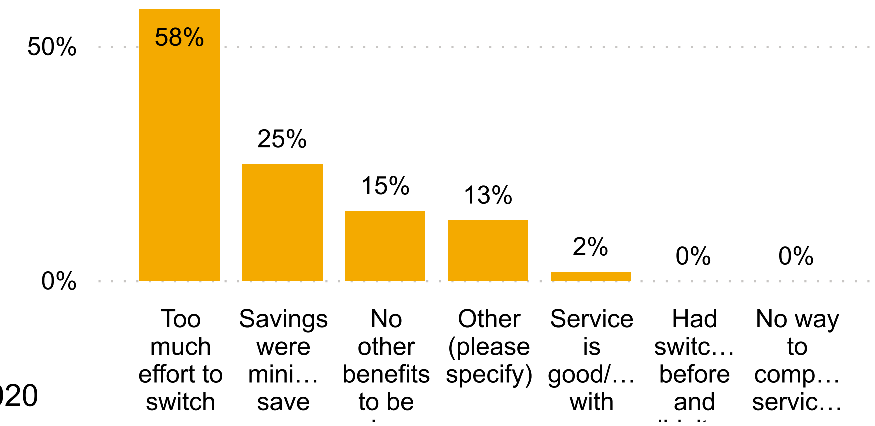
For those customers who had considered switching or re-negotiating but decided not to, the majority cited the key barriers as being too much effort and insufficient savings. A greater than average proportion of SME customers cite being happy with their current service provider as a reason for not switching/re-negotiating.

> Probably try and re-negotiate but it really depends on how much. If it's very little savings, then we wouldn't really bother changing. If it's a significant amount, we would change or go back and talk.

(Not Considering, Medium, Construction)

Key reasons for not switching

- 1. Total
- 2. Micro
- 3. SME
- 4. Small
- 5. Medium
- 6. Large

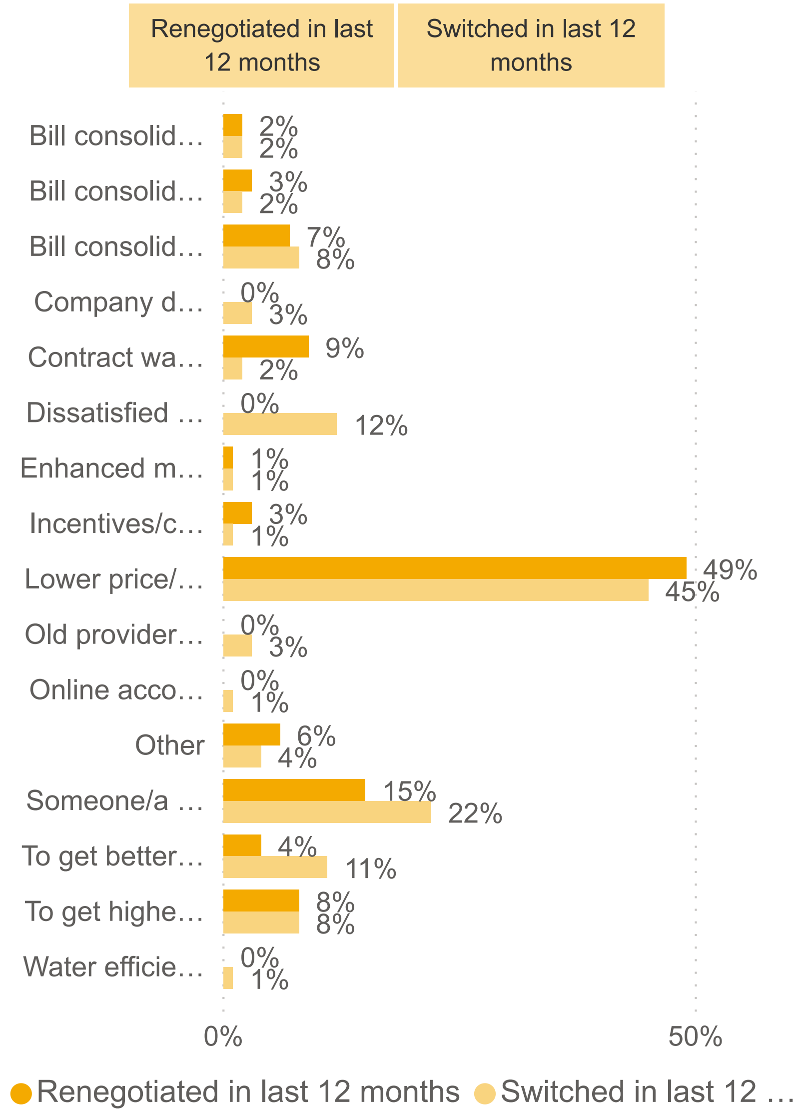


Source: CIS 2020

> It takes a lot of time to do that sort of thing, then I wouldn't be interested, because for the savings, it's hardly worth it.

(Not Considering, Small, Arts, entertainment, recreation and other services)

Motivations for looking into switching or re-negotiating

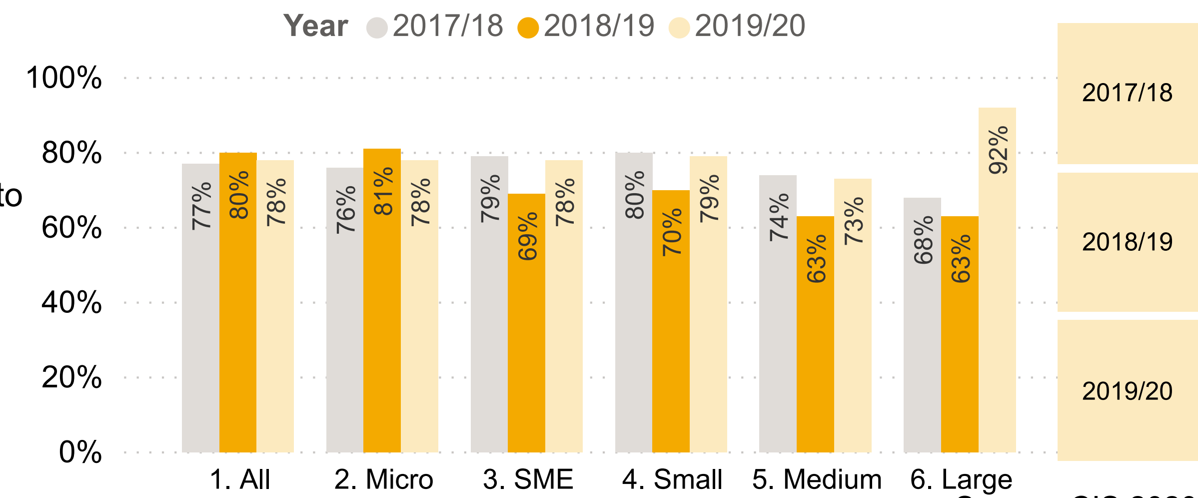


Source: CIS 2020

Customer Satisfaction

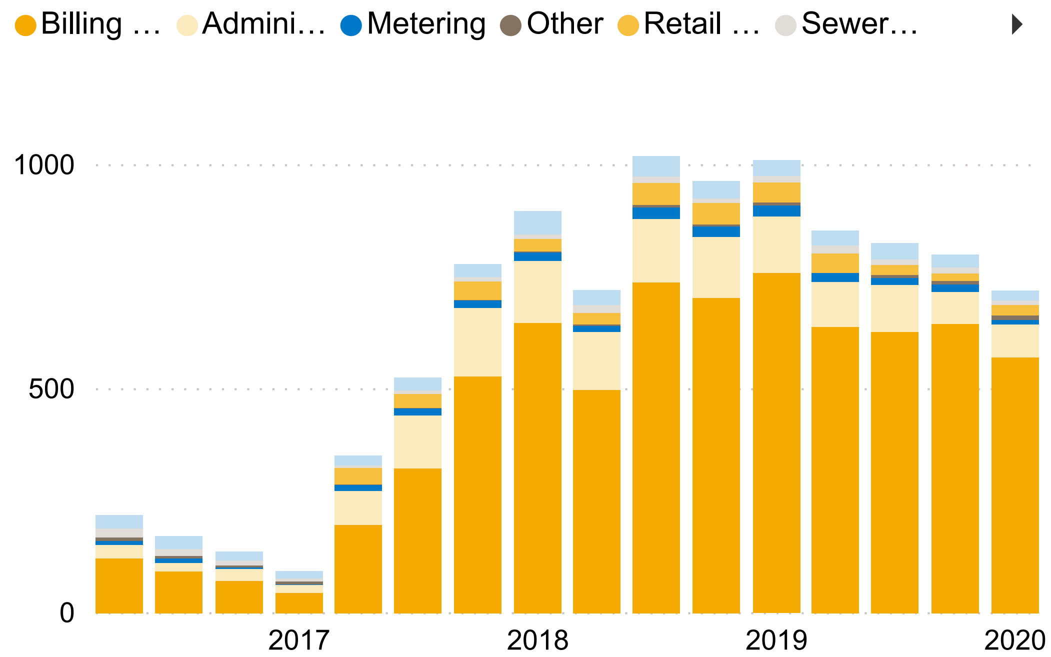
In line with previous years 78% of customers are satisfied with their current water and waste water retailer. Satisfaction was significantly higher (86%) in active customers compared to inactive customers (77%). Of those who were dissatisfied (6% of customers), the principal reason was billing issues (69%), followed by customer service (eg. slow to respond)(54%) and metering issues (eg. incorrect or infrequent readings)(24%). Price was a significantly more common reason for dissatisfaction in larger customers who were dissatisfied (36%) compared to dissatisfied SMEs (8%) and microbusinesses (14%).

Satisfaction with current retailer



Source: CIS 2020

Complaints to CCW*



Source: CCW

*Does not include Welsh companies Hafren Dyfrdwy and Dŵr Cymru Welsh Water. Individual numbers may vary from historic reports due to data reconfirmation.

CCW publish an Annual Report on complaints they have received from customers about water companies in the business retail market. Customer complaints rose from market opening to a peak in late 2018/early 2019. Since then complaint levels have fallen throughout the third year of the market to a total of 3,208 in 2019/20. The number of complaints received by Ofwat concerning the business market have also fallen from 482 (2018/19) to 388 (2019/20). However, it is clear that 'billing and charging' remains the most common complaint. Our CIS 2020 qualitative SME research also reflected these issues where it emerged that a principal reason for SME customers engaging with TPIs is to seek help with correcting retailer billing errors.

Type of complaint	April 2016 - March 2017	April 2017 - March 2018	April 2018 - March 2019	April 2019 - March 2020
Complaints to CCW	824	2780	3975	3208
Complaints to Ofwat	NA	327	482	388
Written complaints to retailers	11,772	14885	17918	14363

Customer benefits

Our vision of a well-functioning and competitive busines retail market remains one which enables customers to save time, water and money.

Time Switching has enabled many customers to consolidate their billing, either across water and waste, multiple premises or with other utilities, thus reducing the amount of time spent handling bills. A quarter (27%) of those who switched in the last 12 months reported that they now spend less time dealing with their water bills, with 59% reporting that it has stayed the same and 8% reporting that it has increased. Results were similar for re-negotiators - 28% saved time, 61% stayed the same, and 7% increased the time spent.

Water Water efficiency was not mentioned by many customers as a motivation for switching or re-negotiating, however, 6% of those who switched in the last 12 months reported receiving new water efficiency services or leak detection services. This rose to 15% in medium organisations and 23% in large organisations. More information on water efficiency can be found in the Market Evolution section.

Money Using data provided by retailers and MOSL we estimate that customers who switched or re-negotiated saved in the region of £13 million to £18 million in 2019/20, relative to the default prices they would otherwise have paid. On an annualised basis (ie. savings that would accrue across the whole year had all switchers and re-negotiators switched or renegotiated by the start of year 3), estimated savings are £14 million - £20 million. Our estimates have increased partly on the basis that average price savings in year 3, relative to default tariffs, were around 3%; higher than 2% in year 2. Note that there is a greater degree of uncertainty concerning the higher end of our estimates for year 3; in part because they are based on MOSL data on switched revenue; these data do not identify switchers who have switched twice and does not account for any customers returning to default tariffs.

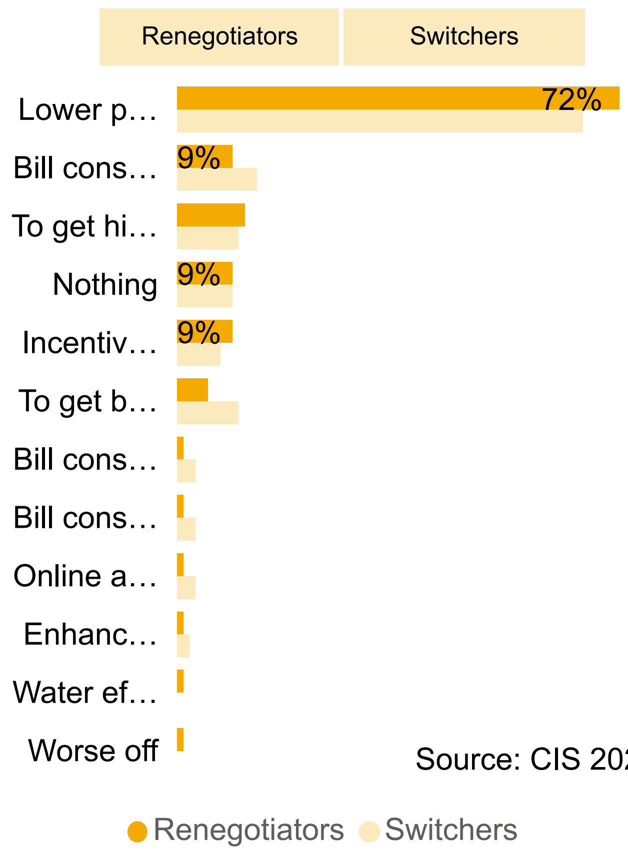
We would also expect benefits to extend beyond the business retail market. Such 'spillover' effects might for example occur as retailers put pressure on wholesalers to deliver price, service or operational improvements. Wholesalers may then pass these benefits through to both business and household customers. Information returns provided by wholesalers suggest that some spillover effects have continued to accrue in the third year of the market. For example market opening has increased the scrutiny of industry data and helped to improve overall data quality; and improved data on meter assets has facilitated some operational efficiencies. However, wholesalers have not in general quantified the benefits delivered so it's not possible to draw conclusions about the degree of spillover benefits at this stage.

Nine in ten customers who switched or re-negotiated in the last 12 months reported having some form of benefit as a result of switching or renegotiating. The main benefit reported was lower price/bills, with improvements in customer service and quality of service also common. The majority of customers said they were better off after switching or renegotiating, with 86% of switchers and 93% of re-negotiators saying that the benefits met or exceeded their expectations, with around 2% (switchers) and 1% (re-negotiators) reporting that benefits did not meet their expectations (CIS 2020 results).

Headline savings

Aggregate price savings	Realised	Annualised
Year 1 (2017/18)	£8m	£12m
Year 2 (2018/19)	£10m	£12m
Year 3 (2019/20)	£13m - £18m	£14m - £20m

Benefits from switching/re-negotiating



Source: CIS 2020

Market Evolution

Since market opening a number of retailers have now entered and exited the market with some consolidation taking place. The third year of the business market has seen two new retailers enter the market (Olympos Water, Water 71) and the exit of two retailers (Yorkshire Water for Business, and Tor Water). More recently on 1 April, 2020, Affinity for Business was acquired by Castle Water. Customers currently have a choice of around 20 different retailers for their water and waste water retail services. The first part of this section illustrates how consolidation and switching in year three has influenced the market share distributions of the business retail market.

Competition for customers' business should encourage retailers to anticipate customer needs and innovate in meeting them, for example, through improved billing, more streamlined administration, or take-up of water efficiency services. The second part of this section assesses Retailer and TPI offerings and Water efficiency, to see to what extent we have seen this area develop in year three and also look at the role of TPIs in the market.

Market shares

Retailer and TPI offerings

Water efficiency

Market shares

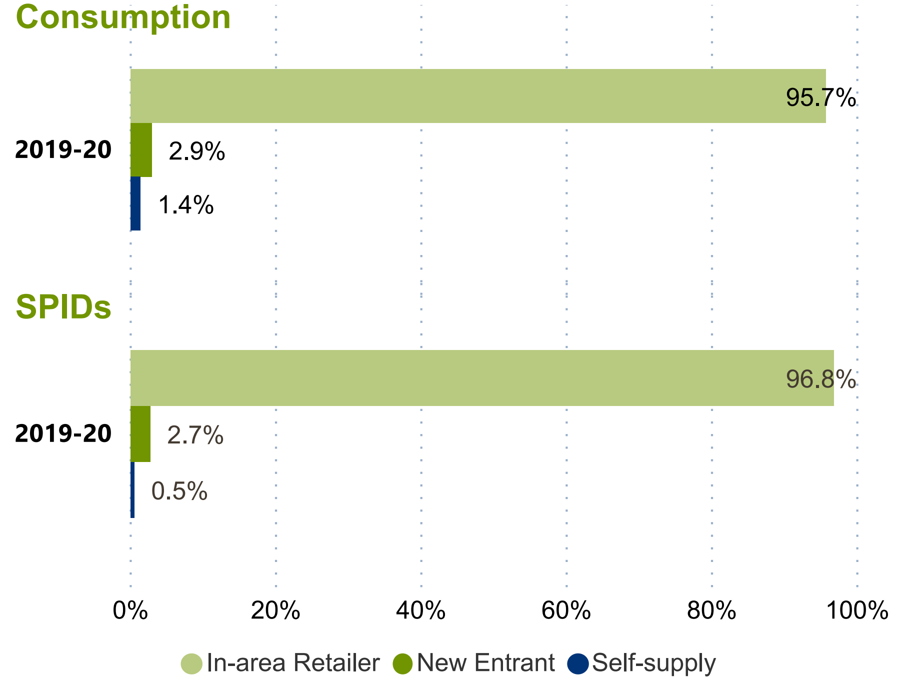
As noted earlier under 'Switching and re-negotiating', customers are continuing to switch and/or re-negotiate broadly at the rate of 4% a year. Changes in retailer market shares reflect this customer activity. In particular new entrants (ie. those who entered the market without acquiring a customer base from the previous monopoly incumbents) have in general continued to acquire customers with little customer loss, while in-area retailers (ie. those retailers who acquired an existing customer base from the previous monopoly incumbents) continue, in net terms, to lose customers.

At the end of year 3 we can see that new entrants are gaining approximately 1% market share, per year, of revenue, SPIDs and consumption and now hold 2.7% of SPIDs, 2.9% of consumption and 2.8% of revenue. For the past two years new entrants have taken approximately a third of all switched SPIDs and also managed to retain the vast majority, as customers switching away from new entrants represent just 2% of all switchers.

In-area retailers continue to hold 96% of their initial market share of SPIDs, consumption and revenue. Nevertheless, there is some churn of customer acquisition and loss between them. For example, switching data indicate that on average in-area retailers have lost ~12% of their initial in-area SPIDs, while also gaining ~8% of new SPIDs from customers of other in-area retailers.

Market share by type of retailer

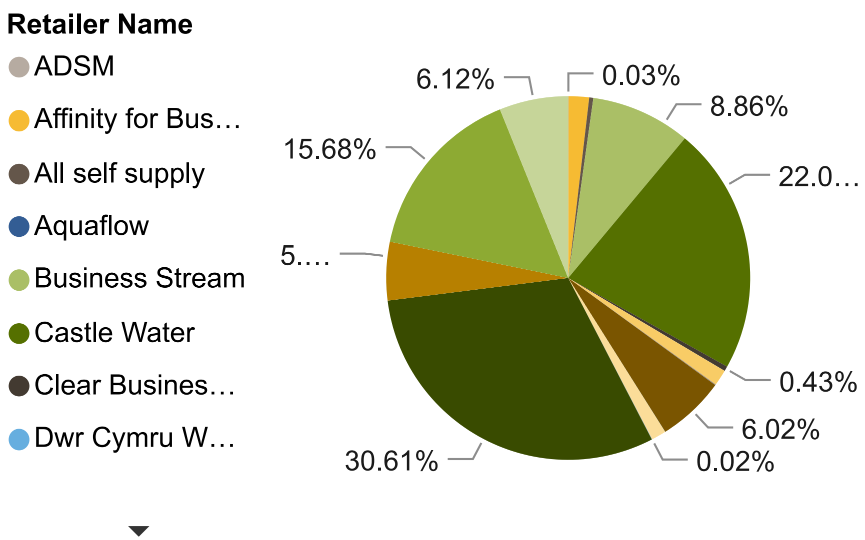
2017-18 | 2018-19 | 2019-20



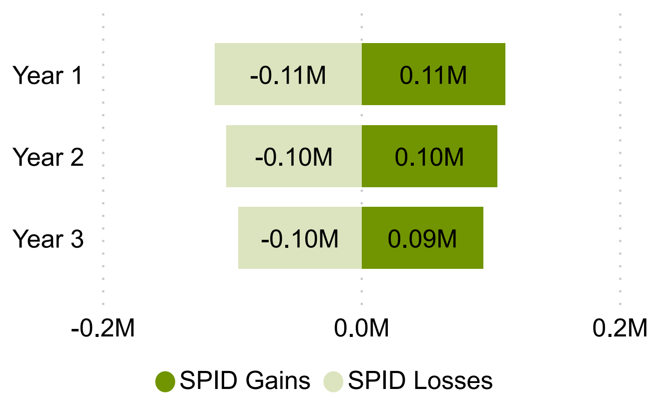
Source: MOSL

The continued popularity of self-supply has also led to an increase in the market share held by licensees, now at 1.4% of consumption and revenue and 0.5% of SPIDs. In year 3 an additional 3 self-supply licences were granted (Nottingham City Council, John Lewis Plc and Kelloggs) bringing the total to 12 at the end of March 2020. Some of the key benefits quoted by self-suppliers, besides financial savings, are the improved monitoring of consumption, which has facilitated understanding of their sites and water efficiency savings, and a decrease in administrative costs of querying retailer invoices.

Market share distribution and changes in SPIDs per year (by selected retailer and year)



Year 1 | Year 2 | Year 3



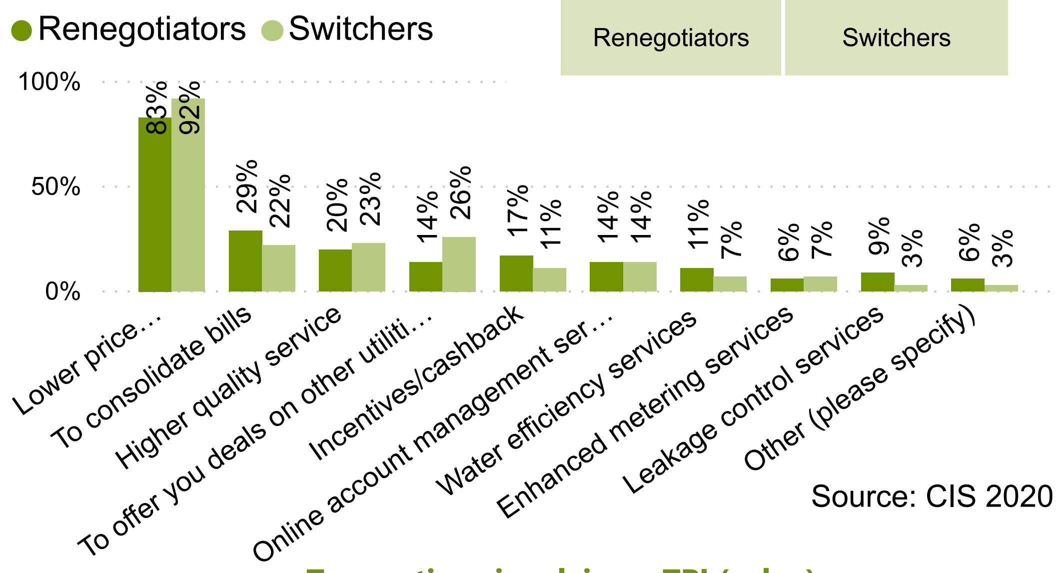
Source: MOSL

Retailers and TPI offerings

Since market opening retailers and third parties have been offering a range of additional services to attract business retail customers. Our CIS 2020 research, for example, indicates that whilst the majority of switchers started looking into switching for price savings, when prompted many identified additional services as a reason to look into switching - 14% identified enhanced metering services, 9% online account management services, 9% water efficiency services, and 5% leakage control services. A number of these services are openly advertised by retailers on their websites, however in a number of instances some services are only available to customers with a certain annual spend threshold which limits those available to microbusinesses and some SME's.

Qualitative research undertaken as part of CIS 2020 finds that some TPIs have increasingly moved towards consultancy services (such as supporting clients with billing, data accuracy and water efficiency) rather than purely 'transactional' switching and re-negotiation. Some TPIs commented that this move is partly due to a perception that it is only possible to offer small savings in price-based switching and partly due to demand, as customers either seek TPIs help in ''getting the basics right'' or seek value beyond price.

TPI offerings to customers



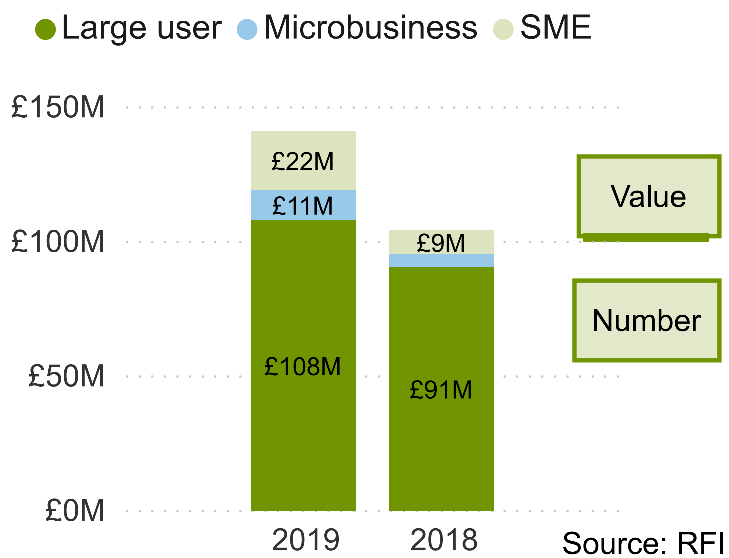
Source: CIS 2020

Reflecting that a key motivator for TPIs is to help customers find efficient routes to market, CIS 2020 found that around a fifth (22%) of switchers who switched in the last 12 months looked into switching after being contacted by a broker or consultant. In most instances the broker offered them a lower price (92%) and in around a quarter of instances offered deals on other utilities, higher quality service or bill consolidation. Around 15% of re-negotiators engaged in the market due to being contacted by a broker or consultant.

CIS 2020 results indicate that around half (45%) of customers who have switched in the last 12 months used a broker or a consultant to arrange the switch. Furthermore, when looking at motivations for switching 40% of microbusinesses were motivated by someone getting in touch, compared to just 12% of large businesses. This highlights the importance of TPIs to smaller businesses in offering a route to market. TPI research indicated that the key barriers to engaging with the market were limited savings (particularly for SME's), time pressures, complexity of pricing, and unknown risks.

Retailer data provided in their RFIs to us indicate that in 2019 a total of 25,330 transactions involved a TPI to a value of about £141 million, which represents just over half (around 54%) of transacted value in year 3. The majority (77%) of these transactions in 2019 were in the microbusiness category and just 5% in the large users category. Inversely, 8% of the total value of contracts fell into the microbusiness category, and 77% to larger users.

Transactions involving a TPI (value)



Source: RFI

Water Efficiency

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. In March, 2020 the Environment Agency and Ofwat published a joint open letter - Delivering greater water efficiency in the business sector - which outlined the key role this market can play in contributing to meeting national needs to delivering water on a long-term sustainable basis. More information here.

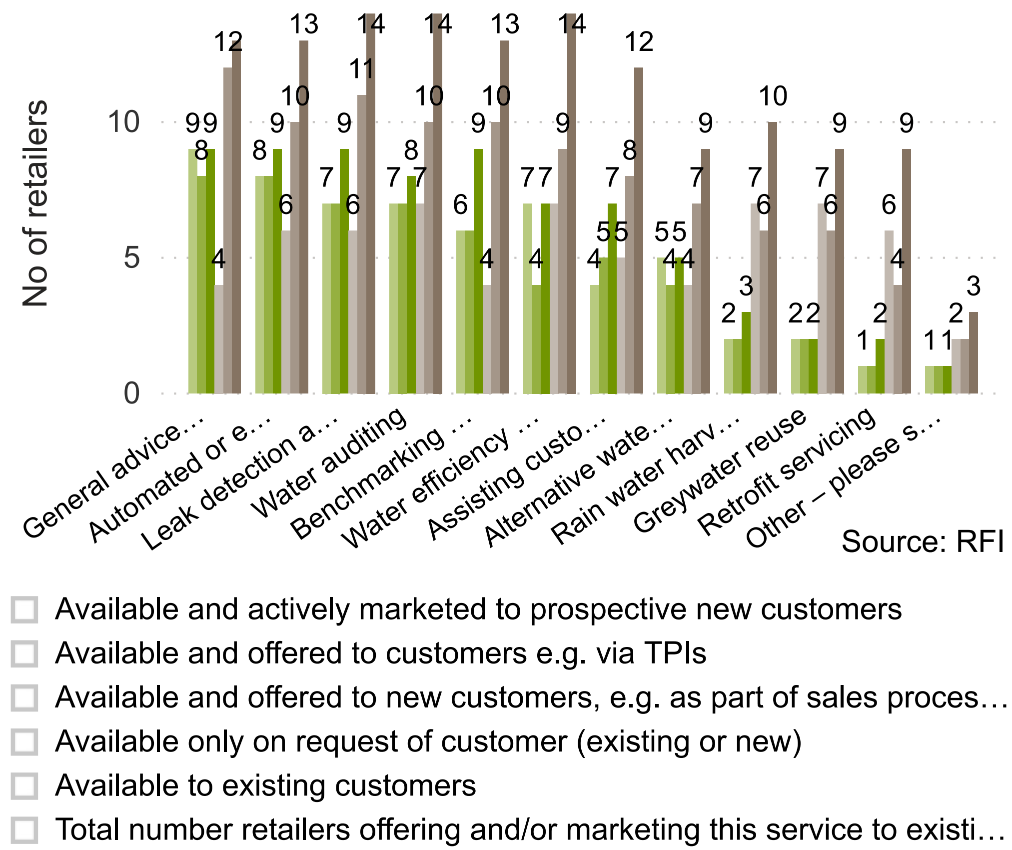
CIS 2020 reports that around one in twenty (6%) of those who had switched in the last 12 months reported receiving new water efficiency or leak detection devices as a result of switching, a significant uplift on the 4% who did so in 2019. This rose to one in six (15%) of medium organisations and over a fifth of large organisations (23%) and those with 10 or more premises (21%), all significantly higher than the average, with smaller organisations and those with fewer premises much in line with the average. An illustration of the variety of services from Retailers are shown to the right.

Self-suppliers have reported significant water efficiency savings in 2019. In response to our request for information 8 self-suppliers reported saving around 567Ml in 2019 - approximately 5% of their 2019 consumption. Of those self-suppliers that actioned their licence, all reported reduced water consumption as a result of switching to self-supply. The majority reported that savings were due to improved meter reading and data visibility, and the deployment of metering devices and AMR which has resulted in quicker identification of leaks and improved water management.

We also asked Retailers to provide us, to the extent they can, with estimates of water savings that their customers have achieved owing to the uptake of some form of water efficiency services. The three largest retailers reported total savings for 2019 of around 2,000 Ml across 298 customers. These reported savings equate to around 0.3% of total consumption across their whole customer base. These reported savings are larger than our estimates of water saved in the first year of the market (270 - 540 Ml). They should be taken as indicative rather than comprehensive at this stage. Retailers, for example, used a variety of methodologies in making estimates.

Nevertheless the reported esimates suggest there is considerable scope for water efficiency savings in the sector - particularly for larger customers. For example, of the savings reported by the three largest retailers, approximately two thirds (62%) accrued to customers with an annual consumption exceeding 50 Ml, whereas around 5% accrued to customers each with an annual consumption of less than 5 Ml.

Water efficiency services offered to different types of customer



Source: RFI

Hover on the buttons below for more information on customers and retailers views on water efficiency.

Customers

Retailers

Market functioning

An effectively functioning market is key to delivering better outcomes for customers. All market parties have a role to play in ensuring that the market functions well. Our first and second annual reports on the business retail market both highlighted that the business retail market was not reaching its full potential and that better customer outcomes were being held back as a result.

We identified three principal market frictions: poor quality market data, cumbersome and inefficient Wholesaler - Retailer interactions and inadequate wholesaler performance. Our report on the second year of the market noted that although there had been some action from the sector to address these market frictions, significant problems remained. On the basis of evidence set out in that report it was clear that significant and urgent action was required by the sector to resolve market frictions and deliver improved outcomes for customers.

In this section we assess how well the market has been functioning in its third year, and the initiatives underway to improve market functioning in year 4 and beyond. We also note the initiatives implemented to protect business customers affected by Covid-19.

Market Frictions

Market Frictions (cont.)

COVID-19

Market frictions

Developments in 2019/20

Our assessment of year three is that industry efforts to improve market functioning have accelerated, aided by collaborative leadership from the market operator (MOSL). However, and as detailed in our recent report on incumbent company support for effective markets, we find that resolution of market frictions continues to require urgent attention from all trading parties if the improvements we have seen to date are going to really gain traction and increase going forward. MOSL has set out a programme of work to support more effective market functioning in its MPOP 2020/21 and we strongly encourage trading parties to work collaboratively with MOSL in delivering this.

Data quality

MOSL has been continuing to work constructively and effectively, where relevant in tandem with retailers and wholesalers and with the RWG, to address data quality, and set out and pursue its priorities for 2019/20 in its MPOP 2019/20. MOSL has reviewed progress in its Annual Market Performance Report 2019/20. It has for example pursued performance rectification plans with wholesalers and retailers which among other things have helped improve some aspects of timeliness and accuracy of meter reading. MOSL noted some progress on two key data quality items:

- long unread meters: Since September 2019, the proportion of meters unread for at least 12 months fell for four consecutive months. Since April 2019, meters unread since market opening fell by 40 per cent. Both reductions were the longest sustained fall since market opening. Nonetheless, targets were not met for reducing the proportion of meters unread for more than 12 months and those unread since the market opened.
- occupancy status / vacancy: The level of flagged vacant premises has increased consistently since market opening, leading to around one in six premises in the market being flagged as vacant. Following collaborative working with the RWG, MOSL was towards the end of the third year seeing progress to reduce the number of sites recorded as vacant, although this trend was reversed from March 2020 with retailers applying a temporary Covid-19 vacant flag to premises which were temporarily closed as a result of Covid-19 and had therefore significantly reduced consumption.

Retailers

MOSL

Wholesaler-Retailer interactions

It remains the case that, where an end customer needs to rely on a retailer to coordinate or resolve requests or queries with a wholesaler on their behalf, difficulties or frictions in these interactions can create a poor experience for end customers. Furthermore, cumbersome and inefficient wholesaler-retailer interactions can increase operational and entry costs for retailers. For example, a national retailer may need to navigate up to 17 different wholesaler policies and portals to provide services to end customers. Where each wholesaler adopts a slightly different policy or process in relation to a particular issue (e.g. leakage allowances), then a national retailer will need to access and understand up to 17 different policies and processes.

In their information returns to us, a number of retailers have indicated that their working relationship and communications arrangements with wholesalers have continued to improve into the third year of the market, noting a positive relationship with wholesalers that work well to address issues. Some noted the positive and constructive work undertaken by the RWG. Retailers as a whole however have also noted that progress remains to be made in a number of areas, including a lack of common standards for bi-lateral transactions, lack of consistency across wholesalers in how services are offered and price to retailers, and that some wholesalers do not always deal with bi-lateral service requests in a timely, effective or consistent manner. (Continued on next page).

Market frictions (cont.)

Wholesaler-Retailer interactions (cont)

In response to these issues, MOSL is continuing to make progress with its bi-laterals transactions programme, a key initiative to enable retailers and wholesalers to manage bi-lateral transactions between them and so improve the speed and quality of service that companies provide to end customers. Wholesalers are now actively supporting this initiative. MOSL completed its initiation phase for the programme in May 2020. It is planning to implement solutions from October 2020. Further details are available on the MOSL website under [bilaterals].

Many wholesalers and retailers are in addition continuing to work together to improve interactions. For example, the RWG, which exists to identify and voluntarily address issues, has developed a set of RWG good practice guidelines. This guidance sets minimum standards on important aspects of wholesaler policy which should help to achieve greater consistency between wholesaler policies. The RWG has in particular in 2019/20 developed and codified a common reputational measure of retailer experiences and satisfaction with wholesaler services (called 'R-MeX'). Implementation of this incentive, which was delayed due to Covid-19, will take place from October 2020.

Once again, our review of incumbent support for effective markets found differences between wholesalers in terms of the action they take to improve wholesaler – retailer interactions. The open letters we wrote to company CEOs highlight this as an area of good practice for some companies but as an 'area for attention' for others.

Wholesalers' performance

Wholesalers' and Retailers' aggregate performance, as measured under the Market Performance Framework (MPF)*, increased in the third year of the market. Across the market, the proportion of MPS tasks completed on time rose from 80% (2018/19) to 87% (2019/20) for wholesalers and from 75% to 81% for retailers. On OPS, wholesalers in aggregate completed 81% of tasks on time in 2019/20, against 63% in 2018/19 (see table below). Furthermore, most wholesalers improved both their MPS and OPS performance in 2019/20 compared to that in 2018/19 and the range in wholesaler performance has narrowed. Most large retailers also improved their MPS performance over this period, with the range in performance also narrowing.

We support work led by MOSL to reform the existing market performance framework, as set out in its MPF roadmap. In our review of incumbent company support for effective markets, we strongly encourage MOSL - as part of this work - to develop financial incentives that reflect the quality of wholesaler services provided to end customers ('B-MeX') and to retailers ('R-MeX'), which should further incentivise improved wholesaler performance.

Wholesalers' and Retailers' performance under the Market Performance Framework

Percentage of tasks completed on time	Standard	2017-18	2018-19	2019-20
Wholesalers	MPS	66%	80%	87%
Wholesalers	OPS**	58%	63%	81%
Retailers	MPS	89%	75%	81%

Source: MOSL

*Wholesaler and retailer performance in the market is governed by the Market Performance Framework (MPF). This sets in place Market Performance Standards (MPS) and Operational Performance Standards (OPS). MOSL monitors and publishes performance under these standards, with further details in particular available in its Annual Market Performance Report 2019/20 and online with peer comparison league tables.

** OPS apply only to wholesalers and relate to bilateral processes between wholesalers and retailers which facilitate efficient functioning of the market, such as prescribing timescales for completing physical connections or meter replacements. Note: OPS performance calculated as: Tasks completed on time ÷ (Number of tasks completed within reporting period + Number of tasks outstanding at end of reporting period outside time permitted) as set out in Figure A2.5: OPS Performance, Ofwat State of Market report 2018/19.

COVID-19

Covid-19 and the associated restrictions on the movement of people and the operation of businesses has affected the whole of the UK economy. Government and Regulators have been acting together to support businesses throughout this period, with Government providing substantial financial support to business, economy wide.

Over the past few months, working closely with the market operator MOSL and the sector, we have taken a number of steps to further protect the interests of business customers in the water sector. Our focus in doing so was to protect the interests of business customers affected by Covid-19, including by avoiding systemic Retailer failure and ensuring our interventions do not come at the expense of the financial viability of the Wholesalers.

The lockdown announced in March created immediate challenges to the ongoing operation of the business retail market – for example, it created a sudden reduction in demand amongst some business customers and meant some customers could face difficulties in paying their bills on time, potentially creating consequential cash flow issues for Retailers. To protect and provide continuity for non-household customers at a time of uncertainty, we worked closely with MOSL and the sector to implement a number of changes to the industry codes.

The interventions we have made to protect customers are summarised on our website here.

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales.

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