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By email

22nd July 2021

Dear David,

PR24 and Beyond: Creating tomorrow together

Thank you for the opportunity to respond to 'PR24 and Beyond: Creating tomorrow together'. Business Stream's interest in PR24 is the way it will affect the Non-household (NHH) retail market, business customers and competitive retailers, so, as you will see, we have focused our response only on the questions of most relevance to us.

In the absence of competitive pressure on wholesalers, the NHH market relies on the regulatory framework to ensure that the decisions and behaviours of the monopoly wholesalers are aligned with the interests of business customers and other NHH market stakeholders. We believe that the existing framework has a number of gaps that we would like to see addressed during PR24, most notably in relation to water efficiency, metering, and wholesaler market performance, as set out in response to the questions below.

Q2. Ambitions for PR24.

We recognise the key challenges facing the sector that Ofwat has identified, and support the four stated goals. These are relevant for the NHH sector and align with our vision of the future for the NHH market, where we need to focus on improving customer and environmental outcomes.

Q3 – How we regulate

Question 3.2 asks to what extent greater coordination is required across the sector and how this would benefit customers.

We strongly support greater coordination across the sector. Consistency between wholesaler regions is the key to more efficient and effective operation of the NHH market. The regional service differences that we currently experience – from the extent and quality of metering provision, to the number and structure of tariffs – leads to complexity and cost inefficiencies in the retail market as processes and systems have to be adapted to reflect each variation.

Greater consistency would mean greater confidence that identical customers in different regions would receive commensurate levels of service, and it would address the confusion and frustrations experienced by customers with multiple sites in more than one wholesale region.

Q4. Increasing focus on the long term

Given the nature of the challenges facing the sector, we agree that we need to be able to plan for the long term, and to ensure that the immediate price controls recognise and facilitate where we are going in the future. This applies equally to the NHH market, for which we would like to see an agreed vision of where we are going and a road map for delivery – which will inevitably include dependencies on the wholesalers and PR24. Two areas that we believe are particularly important to the medium to long-term delivery of improved outcomes for business customers and for the environment, but which currently have dependencies on the wholesalers, are:

- (i) Water efficiency: retailers want to do the right thing for our customers and the environment, but the regulatory frameworks and funding mechanisms need to be aligned to provide the right incentives for increased water efficiency in the NHH sector. Behavioural change takes time, so we need to start this process now to ensure that we are able to deliver long term environmental value. This might include the transfer of funding from wholesalers to retailers, or funding through both PR24 and the retail price controls;
- (ii) Metering: the cost, quality and availability of metering data, as well as the quality and ‘smartness’ of NHH meter assets is mixed across the market. We need to find ways of addressing these issues, and providing the level of data necessary to support water efficiency and improved experience for business customers. This may not be the current model of metering provision and we suggest that we need to explore now, the options that will deliver consistent and improved outcomes for the NHH market in the future. It is particularly noticeable that under PR19, the roll-out of smart(er) metering is totally inconsistent between wholesalers.

Q5. Getting more for customers, communities and the environment

Question 5.7 asks which areas should be considered for targeted challenges at PR24.

Ofwat indicates that targeted challenges should focus on areas where there has been limited success in the past, hence we are very pleased to see that Ofwat recognises the need to make greater progress in water efficiency in the NHH sector, and the potential for building on the RWG WE Action Plan. However, we need to recognise that there is now a competitive market and that the relationship with NHH customers now sits with retailers. Whilst it is for wholesalers to determine the extent of the water scarcity problem within their own areas, and to be able to sign-post zones in greatest need of water efficiency activity, the regulatory framework needs to be adapted to recognise that wholesalers now need to work in collaboration with retailers to deliver water efficiency in the NHH sector. In the electricity

sector for example, National Grid is responsible for maintaining the demand/supply balance on the system, but it does not undertake energy efficiency activity or build generation itself. Instead the regulatory framework provides economic signals and incentives that encourage and enable others to do so. We need a similarly enabling framework for water.

As highlighted in response to Q4 above, a second area in which we believe success has been limited in the past is metering for the NHH sector. If we are going to deliver the smart networks and open data recently referred to by Ofwat, wholesalers will also need targeted challenges around the roll out of smart meters to the NHH sector, in a way that provides consistency across the market, and which supports customer switching. There are also lessons that could be learned from the electricity sector here (in terms of the mistakes to avoid).

A third area that we believe needs to be addressed in PR24 is a means of incentivising wholesalers to recognise and reflect the interests of business customers' and the NHH market. We expand on this point in response to Q6 below.

Q6. Reflecting customer preferences & Q7.3. PR24 'challenge panel'

Non-household customers account for 25-30% of English water consumption (under normal circumstances), and retailers are, in effect, wholesalers' largest customers. During PR19, we don't feel that NHH market stakeholders were actively consulted, nor our specific interests taken into consideration. There is currently no financial incentive on wholesalers to align their behaviours with the interests of either business customers or competitive retailers in the way that there is for domestic customers and developers (through C-Mex and D-Mex). Consequently, wholesalers face no consequences if their decisions or behaviours result in poor outcomes for business customers. In PR24, we believe this could be improved, by:

- (i) Active consultation with retailers, in an efficient and streamlined way. We need to find a way to avoid each retailer having to engage with multiple wholesalers and vice versa. Consultation with retailers could potentially be channelled through the UKWRC. It would be important that the PR24 Challenge Panel (Q 7.3) includes representation from retailers – again potentially through the UKWRC – and from business customers.
- (ii) A meaningful (financial) incentive on wholesalers (akin to C-Mex and D-Mex) to ensure behaviours are designed to deliver good outcomes for business customers, retailers and the NHH market.

Q9. Outcomes and performance commitments

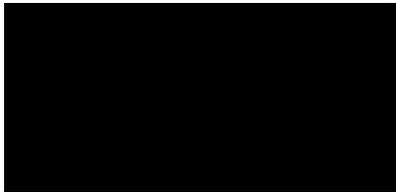
We strongly support the principle of reducing the number and bespoke nature of PR19 performance commitments (PCs) – the efficiency of the NHH market depends on consistency between wholesale regions and a reduction in complexity to the extent practical.

We support a continued focus on outcomes rather than inputs, which gives the industry/market greater scope to innovate and optimise the delivery of those outcomes. As outlined in our responses above, there are three key areas where outcomes are important to the future effectiveness of the NHH market, and we would want to see the introduction or amendment of performance commitments:

- *Water efficiency*: the alignment of incentives to deliver the necessary reduction in water consumption by NHH customers, in collaboration with retailers;
- *Reflecting customer preferences*: the introduction of financial incentives on wholesalers to ensure their behaviours are aligned with the interests and expectation of NHH customers and retailers; and
- *Metering*: consistent incentives across all wholesalers to deliver the (smarter) metering and data necessary to support improved NHH customer experience and greater water efficiency.

We would be happy to discuss any of the above points further, so please don't hesitate to contact me if this would be useful.

Yours sincerely



Rosalind Carey
Strategy and Regulation Advisor