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By email – [PR24@Ofwat.gov.uk](mailto:PR24@Ofwat.gov.uk)

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Dear David,

**PR24 and Beyond: Creating tomorrow, together.**

On behalf of UKWRC members we have collated a joint response to Ofwat's initial views on the framework for PR24 and future price reviews which we hope you find useful. Our Retailer members will also submit responses in their own right where they choose to do so.

We have approached this by considering what the PR24 proposals mean for the Non-Household Retail (NHH) market. Our overriding view is that PR24 needs to proceed with consideration and alignment to the NHH market because otherwise the outcomes from PR24 will ultimately undermine the development of a sustainable NHH market, to the detriment of NHH customers. We have considered each of the proposed PR24 goals as follows:

**(i) Focusing on the long term**

- Commitment: Retailers need to know from Defra and Ofwat that there is commitment to the long-term future of the NHH market, which delivers value for all participants, including all customer groups;
- Vision: Retailers want to develop a clear vision, with specific goals for the NHH market, to ensure that the delivery mechanisms (REC Review; PR24; RWG; Market governance processes etc) are aligned to deliver it;
- Financial resilience: The economics of the market/price controls need to ensure that participants are able to recover efficiently incurred costs and make a reasonable return, to ensure their financial viability and ongoing investment in the market;
- Price controls: Retailers would like to see a roadmap for the transition from regulated price controls to competitive pricing with clear milestones for the removal of price caps from particular customer groups (in the same way as happened in energy for example).
- Retailers are working to use these PR24 'goals' to articulate and align a vision for the NHH market.

**(ii) Delivering greater environmental and social value**

- Environmental and social responsibility: Retailers want to do the right thing for the environment and to facilitate greater water efficiency in the NHH market, but under the current regulatory framework, the incentives are not aligned – for customers and retailers – and the roles of wholesaler and retailer are not clear;
- Future model: The RWG Water Efficiency Action Plan work is developing a model under which NHH customers and retailers could play a much greater role in water efficiency, which will require an alignment of incentives and funding through the appropriate price controls (REC and PR24);

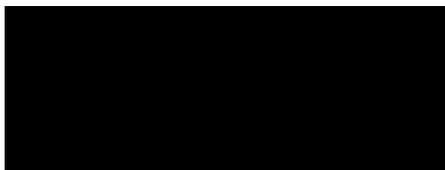
- The current thinking is a retailer obligation (with funding through the REC to deliver this), plus wholesaler/retailer collaboration (e.g. incentive scheme) funded through PR24;
  - We are very pleased to see that Ofwat recognises the need to make greater progress in water efficiency in the NHH sector, 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 and not approach NHH customers directly with offers of free or subsidised measures, more like the role of National Grid in balancing the supply/demand position in the electricity sector.
- Customer demand: Alongside retailer-driven initiatives, the framework needs to create customer incentives to drive changes in behaviour – from Government policy changes to the structure of wholesale tariffs;
  - Consumption data: A key enabler of water efficiency in the NHH market will be increased availability, accuracy and granularity of consumption data. The NHH market needs a coordinated rollout across the whole market of smart(er) metering. This should be coordinated with a funded programme to locate all 'long unread' meters, together with a dedicated replacement programme for ageing NHH meters with priority for larger users. Currently the average asset age is around 25 years.
- (iii) Reflecting a clearer understanding of customers and communities**
- Collaboration: Greater co-operation between wholesalers and retailers, so that wholesalers are aware of the things that matter to retailers and to business customers, and both can work together to fix them (for example, through RWG). It works both ways, retailers can deliver messages to business customers, for example, to help raise awareness of water efficiency, encourage customers to monitor consumption and identify leaks etc;
  - Retailer voice during PR24: Retailers are the wholesalers' largest customers but it felt as though retailers were largely ignored during PR19. It needs to be ensured that the retailer voice is heard in PR24;
  - Alignment of incentives: Retailers want wholesalers to deliver outcomes for NHH customers as well as domestic customers. Wholesalers respond to financial incentives/penalties so we would like to see a financially significant incentive akin to C-Mex/D-Mex, to drive wholesaler behaviours that support business customers, retailers and the NHH market (in the absence of any other consequences of poor behaviour).
- (iv) Driving improvements through efficiency and innovation**
- There are a number of areas of inefficiency in the existing market that need to be addressed, for example:
    - Single market: Retailers want to see a single market with consistent conditions across the whole country, not regional markets that are more/less attractive than others depending on different wholesale incentives/behaviours/policies;
    - Reducing complexity and cost in the market: Complexity means cost for retailers and confusion for customers and destroys value in the market. As well as greater harmonisation, Retailers would like to see less complexity in tariffs, policies (operational, pricing), incentives (gaps, vacants, water efficiency);
    - Market incentives: The Market Performance Framework is complex, costly and ineffective and needs to be more closely aligned with improved outcomes for customers;

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- Metering: The cost, quality and availability of metering data, as well as the quality and smartness of the meter assets is very mixed. We need to find ways of addressing the capacity, cost and quality issues, and providing the level of data necessary to support water efficiency. This may not be the current model and Retailers want to explore how we achieve the outcomes that best support improved customer service and water efficiency;
- Affordability: Reducing the cost of market operation will ensure customers are not paying for inefficiency;
- Innovation: A well-functioning market will deliver cost effectiveness and drive innovation. However, the basics need tackling in order for innovation to flourish – in service delivery, service offerings etc;
- Market governance: This should be inclusive but cost effective, proportionate to the value of the market.

We hope that you find these comments helpful. Retailers are keen to be part of the PR24 debate and we look forward to discussing these issues with Ofwat and others.

Yours sincerely,



Phill Mills

**Chair, UK Water Retailer Council**