

PR24 and beyond: Long-term delivery strategies and common reference scenarios

Thank you for the opportunity to comment on Ofwat's emerging proposals concerning PR24 long term delivery strategies.

During PR19, the non-household (NHH) market had only recently been established, and the industry did not sufficiently understand the interactions between the market and price control. However, now, almost five years after the market opened, we have an opportunity to ensure that the wholesaler price control commitments work for business customers as well as domestic customers. As a retailer in the NHH market, we want to ensure that the needs of business customers and the effectiveness of the competitive market are both included in the PR24 price control when considering long-term delivery strategies.

The commencement of the PR24 process comes at a critical time for the non-household water market. As reported in Ofwat's State of the Market report in December, almost five years after it opened, the market is not yet delivering for the large majority of business customers. Whilst customers, stakeholders and market participants expect a well-functioning competitive market to enable all business customers in England to choose their water and sewerage retailer, in practice, awareness and activity in the market are diminishing. There are five critical areas that market participants have agreed on that need to be addressed:

1. NHH market economics: to allow retailers efficient cost recovery and adequate return on investment, and an appropriate balance of risk and reward between participants in the NHH market.
2. Metering: improved availability, quality, frequency and cost of consumption data – consistently across the whole market.
3. Greater water efficiency from NHH customers.
4. Greater alignment of wholesaler interests/incentives with NHH customers and the market.
5. Market efficiency – resolving market inefficiencies, inconsistencies and complexity.

Although some good progress has been made, these issues cannot all be 'fixed' by the market participants themselves, and in some cases will require more significant changes to the way the market is set up and the way and extent to which participants are incentivised and remunerated. In addition, there are several crucial regulatory reviews underway or about to commence, which could impact the NHH Market – PR24, the post-implementation review of the Exit Regulations, a review of the Retail Exit Code, and the Market Performance Framework review. Therefore, we have a unique opportunity to address the issues hindering the effectiveness of the market. But, we need to ensure that the areas mentioned above are considered in the appropriate forum and that the cross dependencies between them are understood and considered as a whole rather than in isolation.

Of the five issues above, points 2, 3 and 4 are likely to have implications for, or dependencies on, the wholesaler price controls, and we would like to ensure that they are considered part of the PR24 process. Solutions to these NHH market issues will not necessarily be straightforward, but we must ensure that all relevant options and implications

are considered. We recognise that the best outcomes for NHH customers may involve amendments to a combination of regulatory mechanisms.

We will comment separately on wholesalers' incentives in our response to the discussion paper on performance commitments and use this opportunity to request that metering and a smart(er) meter strategy for the NHH market should both be considered when reviewing delivery strategies as part of PR24, in order to support improved water efficiency for NHH customers.

Since the NHH market was created, the urgency of the climate change debate has brought the environment into sharper focus. The UK now has ambitious targets to reduce emissions by 78% by 2035 to support reaching its net zero target for 2050 (the water industry has set its own target for 2030). The Environment Agency has classified eight additional water companies as "seriously water stressed for metering purposes" and in the Queen's 2021 speech, she set out the purpose of the Environment Bill, amendments for which are now being scrutinised by a House of Lords committee, notably to "put the environment at the centre of policy making", "introduce a framework for legally-binding environmental targets" and manage "water sustainably through modernised legislation to secure a long-term, resilient water supply and wastewater services."

Good quality consumption data is critical to support customers, retailers and wholesalers to assess the potential for water savings and to measure the success of any water efficiency interventions. In the same way as in the energy sector, smart metering will be critical to delivering greater water efficiency. Our concern is that if the decision to invest in smart(er) metering for the NHH sector is left as an option for wholesalers, there is a risk that the timing, extent, and technological solutions developed will continue to progress on a piecemeal basis, such that customers will continue to see different service levels in different regions of the market – and some may see no improvement at all.

Therefore, we suggest that the PR24 price control could create two important drivers to support the NHH market in achieving greater water efficiency and improved quality of service for customers:

- incentivise wholesalers to ensure full business metering with a free meter for every supply point that is unmetered; and
- develop a coordinated strategy for smart meter rollout across the NHH customer base (avoiding the mistakes made in the energy sector).

MOSL is currently leading a Strategic Review of NHH metering, the initial output of which will be available in the New Year. Again, this will be essential work to feed into the PR24 process.

Thank you once again for the opportunity to contribute to the PR24 process.