

Summary of trading party & Ofwat workshop – non-household input to PR24

This document provides a summary of the main points discussed at the MOSL facilitated workshop between trading parties, CCW and Ofwat held on 13 December 2021 via Microsoft Teams videoconferencing.

Context for the session:

- ◆ MOSL convened the workshop on the back of a request from trading parties to ensure the market can contribute to the important regulatory reviews underway or about to commence including PR24 and the review of the Retail Exit Code (REC).
- ◆ The session was led by trading party representatives, was used to highlight key market issues that have been identified as having potential implications for PR24
- ◆ MOSL CEO Sarah McMath chaired the meeting and highlighted we know what the non-household market challenges are, we now need to work together to identify how we can resolve them, including through PR24

Ofwat: PR24 strategic context:

- ◆ Peter Jordan from Ofwat gave a presentation on PR24 and the strategic context. It was highlighted there are three key interlinked workstreams: outcomes, cost assessment and risk & return.
- ◆ The need for enhanced customer engagement, a focus on the heightened environmental challenges and balancing short and long terms needs/interests were also emphasised.
- ◆ Ofwat highlighted the performance commitments currently being [consulted on](#) and asked for participants to respond ahead of the 13 January deadline.

Key market considerations for PR24:

- ◆ Ros Carey from Business Stream highlighted the UK Water Retailer Council (UKWRC) draft vision for the non-household (NHH) market produced in summer 2021 and subsequent discussions between wholesalers and retailers had led to the agreement the five key areas to address are:
 - NHH market economics – cost recovery, return on investment, balance of risk and reward between participants etc.
 - Metering – improved availability, quality, frequency and cost of consumption data

- Delivering greater water efficiency from NHH customers
 - Greater alignment of wholesaler interests/incentives with those of NHH customers and the market
 - Market efficiency – resolving market inefficiencies, inconsistencies and complexity
- ◆ It was highlighted the solutions to these issues are not necessarily straight forward, and there could be a range of options that need to be considered. Trading parties want to ensure that these NHH market issues are considered in the appropriate forum(s).
 - ◆ Ros explained whilst each of the five issues above has potential implications for PR24, points 2, 3, and 4 are the focus of this session and 1-page summaries on each were circulated beforehand.

Metering

- ◆ Andrew Beaver from Northumbrian Water introduced the discussion on metering and potential considerations for PR24. It was highlighted the model adopted at market opening created a lot of retailer/wholesaler interactions and there are questions around whether the current model is the right one.
- ◆ The strength of Market Performance Framework (MPF) incentives was raised compared to PR19 incentives on wholesalers like C-MeX with varying views from trading parties on the extent the MPF needs reforming.
- ◆ The interaction with the [Strategic Metering Review](#) (SMR) was questioned and Sarah McMath clarified it will look at accountabilities and potential inefficiencies. MOSL will share the market overview of metering technology and suppliers.
- ◆ Ofwat highlighted the potential significant implications for data collection for cost modelling for the price review that would be required under some of the options for changing roles and responsibilities on metering. A period of lead-in would be required ahead of the price review, but this would depend on what the preferred option was.
- ◆ With the SMR a multi-year programme of work, Ofwat also questioned whether it was likely that a preferred option, supported by robust evidence and consultation, could be identified and implemented in the next 6-12 months. Ofwat emphasised this should not distract from the need for high quality data, which it considers a priority for the market.
- ◆ Ofwat confirmed it would consider smart metering proposals as part of PR24 and had approved funding for some smart metering programmes already – including as part of the green recovery

funding. It is helpful that the SMR is looking to better understand and promote the benefits associated with smart meters for NHH customers. Ofwat said PR24 will not explore options around roles and responsibilities in relation to metering – this is being considered as part of the SMR.

- ◆ Trading parties raised the patchwork of current wholesaler approaches in relation to smart metering and lack of standardization was also raised.
- ◆ Ofwat highlighted their green recovery funding asked for standardization/interoperability and questioned whether there is more MOSL/the market could be doing to consider and promote harmonisation.

Water efficiency

- ◆ Ros Carey from Business Stream introduced the discussion on water efficiency, recognizing some of the discussion on metering had covered similar ground already. It was highlighted the efficiency savings envisaged at market opening had not yet been achieved.
- ◆ Ofwat highlighted potential incentives for wholesalers to deliver water efficiency savings in the market is just one option being considered and should not be considered a panacea to improving water efficiency in the NHH sector. Data quality improvements are a key pre-requisite. The MPF is another lever – which could be used to enhance retailer incentives for example.
- ◆ Ofwat highlighted that some retailers are more active than others in the water efficiency space. It also noted there were a number of third party intermediaries (TPIs) providing water efficiency services.
- ◆ It was seen as key that the current issues around the lack of water efficiency in the market were solved by the range of mechanisms available

Wholesaler incentives

- ◆ James Cleave from Everflow Water introduced the discussion on wholesaler incentives, which are not currently seen as fully aligned to delivering outcomes for NHH customers. Dealing with legacy data issues remains a key area requiring focus from wholesalers.
- ◆ B-MeX, R-MeX and the MPF review were highlighted as important tools as well as the importance of looking at the suite of incentives holistically to drive the right NHH customer outcomes.
- ◆ Ofwat questioned the suggestion that additional funding may be needed in PR24 to improve data quality given current code and licence obligations should drive this. It was felt there is a question around where B-MeX and R-MeX should sit - within codes or the price control.

- It was felt it was reasonable to look at strengthening incentives including MPF although some wholesalers point to improving performance against current MPF standards. The importance of responding to the current MPF review call for inputs and Ofwat's PR24 consultations was reiterated.

Ofwat highlighted it will take longer and until April 2025 if we wait for PR24 rather than the MPF review due to come into force 2023-24

AOB and next steps

- Sarah McMath highlighted MOSL is keen to represent as many market voices as possible into the PR24 forums, (including those not present in the room) and the intention that today was the start of a conversation.
- Ofwat agreed the conversation was helpful and encouraged trading parties to respond to the current PR24 and forthcoming REC consultations in writing as conversations – whilst helpful - cannot be considered as a substitute for formal, written consultation responses.
- Retailer representation on Ofwat's outcomes working group was discussed and Ofwat flagged a need to make sure there is appropriate NHH input

Actions

- MOSL to share the Strategic Metering Review market overview of metering technology and suppliers. – it can be found [here](#)

Attendees:

Sarah McMath – MOSL (Chair)
Adam Richardson – MOSL
James Higgins – MOSL
Georgina Mills – Ofwat
Tim Griffiths – Ofwat
Peter Jordan – Ofwat
David Watson – Ofwat
Kirsty Stober - Ofwat
Emma-Jane Daly – Ofwat
Ros Carey – Business Stream
Andrew Beaver – Northumbrian Water
James Cleave – Everflow Water

Phill Mills – UK Water Retailer Council (UKWRC)
Wendy Monk – Wave Utilities
James McLaughlin – Severn Trent Water
Pritesh Patel – First Business Water
Steve Hobbs – CCW
Claire Yeates – Waterscan
Rachel Skelton – Water Plus
Chris Milner – Portsmouth Water
Matthew Turner – Affinity Water