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Dear Ofwat

## **PR24 Draft Methodology Consultation**

We welcome the opportunity to comment on the draft methodology for PR24 and set out Wave's comments below. We've focused on the elements of the methodology that impact non-household customers and Retailers. Wave is also supportive of the UKWRC response submitted separately.

We note Ofwat's focus on 'outcomes' for PR24. Whilst an 'outcomes' approach is appropriate for most Wholesaler activities as it facilitates innovative thinking and solutions, this is not necessarily what business customers and Retailers desire in relation to Wholesale services. There are many circumstances where the market would benefit from greater consistency and standardisation by Wholesalers, for example, policies on customer-side leakage. This should be borne in mind when considering BR-Mex, demand reduction and metering.

### BR-Mex

Wave welcomes the inclusion of BR-Mex as a new common performance commitment for the English Wholesalers. We believe that this will help to strengthen the focus within Wholesalers to drive improved wholesale services to non-household customers and Retailers. It will be important to ensure that the financial incentives and penalties achieve parity between services to households and non-households. Otherwise, one will take priority over the other. We assume that the financial incentives and penalties will be applied proportionally, in other words, the best performing Wholesaler would benefit from an additional 0.5% of wholesale revenue but the Wholesaler just above the median would benefit from a proportion, say 0.1%. Additional clarity on this would be helpful.

We note the proposal to bring together R-Mex and B-Mex together into a single BR-Mex scheme which incorporates both non-household customer and Retailer experiences. We have no objection to bringing these together, but it would be beneficial to have transparency so that the distinction between the experience of Retailers and non-household customers can be clearly seen. This will highlight valuable differences and similarities between the two. Transparency on performance throughout the year will also be beneficial so that Retailers are aware of the likelihood of changes in wholesale charges, as we assume that any financial rewards and penalties will be implemented through increases and decreases in wholesale charges (the revenue adjustment). It's not clear what the practicalities are in relation to the timing of data collected, assessment of performance and changes to wholesale charges, given that reconciliation is proposed to be done annually and wholesale charges need to be published in advance of the charging year.

We note the proposal to further develop the current R-Mex survey and supplement with more granular feedback via the Bilaterals Hub. We're supportive of this approach but stress that qualitative feedback is often much more valuable than quantitative feedback, particularly in relation to positively influencing behaviours and driving strategic changes. Therefore, the

qualitative feedback already gained from R-Mex should not be diluted but instead further strengthened by the use of feedback via the Bilateral Hub.

We support the recommendations of the B-Mex working group and Wave would be willing to support any additional working groups set up to develop BR-Mex further. We support the piloting and testing of BR-Mex ahead of the conclusion of PR24, although we're aware that at least one Wholesaler has already done some testing of non-household customer experience.

It's not immediately obvious how improvements to Wholesaler owned data quality will be addressed, whether that is intended to be through the common performance commitment or through the new Market Performance Framework (MPF)? What is important is that where appropriate, data quality is addressed by the Wholesalers and the development of BR-Mex and the development of the new MPF work closely alongside each other so that they dovetail together. Overlaps and omissions between the two will create ambiguity and problems for the future.

### Demand reduction and metering

We consider that for non-household customers to fully realise the benefits of this market, they need to have access to accurate, timely consumption data via smart metering technology. This will ensure accurate bills, offer opportunities for water savings and enable customers to spot leaks. Unlike energy, there is no Government mandate or national rollout programme for smart meters. This is creating fragmented regional markets where the service and experience a customer gets depends upon the policies and investments made by their Wholesaler. For Wave, most of our customers are in either the Anglian or Northumbrian wholesale areas. Anglian is rolling out a smart metering programme, Northumbrian is not currently, and this will result in significantly different experiences for customers depending upon their location.

We propose that PR24 should include an explicit outcome of widescale accessibility to accurate, timely, granular data (with common standards) for all non-household customers. This should be a common performance commitment with its own Outcome Delivery Incentives to reward outperformance and penalise underperformance. This would incentivise prompt installation of smart meters and drive a step change improvement to the market significantly improving outcomes for non-household customers. If the costs of widespread access to granular data is higher than standard meters and dumb meter reading then there needs to be some cost control and read across into the REC cost allowances so that this is handled appropriately.

Regardless of a widescale rollout being implemented, Wholesalers need to provide improved clarity on their current smart meter rollout plans to Retailers so that customers can be informed if and when their meter will be upgraded, and also allow customers to make a choice if they wish to pay for an upgrade ahead of schedule.

Thames Water's smart meter data is showing that around 25% of water is continuously flowing, and therefore is likely caused by leaking taps, toilets, urinals etc. This data is already facilitating collaboration with Retailers to target impacted customers and address the issues, resulting in financial savings for the customer, water savings for Thames and customer retention benefits for Retailers. Extrapolating that across the industry indicates that the benefits of smart metering are significant. This could be supported by a 'national metering strategy' making it clear that the objective for the industry is to have widescale accessibility to accurate, timely, granular data using common standards. The work currently being undertaken in the Meter Roles & Responsibility Review should be closely considered for PR24 as a metering strategy could be effectively implemented and fast-tracked for PR24.

This would drive smart metering and the availability of accessible, consistent and accurate data. In turn, this would facilitate the opportunity and ability to drive the performance commitments on demand reduction. They are both long term outcomes so could run parallel. We doubt that the

proposed demand reduction performance commitments alone will be sufficient to drive the industry to where it needs to be.

We have considered whether there should be three separate performance commitments to 1) reduce leakage, 2) reduce household per capital consumption (pcc) and 3) reduce business demand or a combined single water demand performance commitment covering all three. We think that there is a material difference between reducing household demand and reducing non-household demand. In reducing household demand there will be operating cost efficiencies experienced by the Wholesaler not just of the water saved but also because lower bills mean less customer contact, debt collection issues and complaints. However, in reducing non-household demand the Wholesaler will only benefit from the operating cost efficiencies of the water saved. Any other operating cost efficiencies will be experienced by the Retailer. This implies that when a Wholesaler is considering whether to reduce leakage, household demand or business demand, business demand may be the least attractive. Therefore, we think there should be a separate performance commitment for each to ensure both opportunities are optimised.

In the light of the recent drought situation the spotlight on leakage has resurfaced very publicly and is likely to do so repeatedly in the future. Therefore, transparency on demand reduction through reduced leakage should be separately identified and targeted via a separate performance commitment.

On balance therefore, we think that it would be preferable to have three separate common performance commitments. We note that Ofwat would require Wholesalers to also report on the three combined anyway. We also note that there needs to be a clear metric for business demand that has meaning. For example, megalitres per day not per capital consumption.

Wave strongly supports a proposed requirement for Wholesalers to collaborate with Retailers. Wave is already working with a number of Wholesalers but this would help facilitate greater collaboration with those who are less proactive. In particular, Wholesalers need to be clear about their approaches to leakage, for example, South West Water has offered a £500 contribution towards customer side leak detection and repair, but Wholesalers deciding to fix leaks for free during Temporary Use Bans is less helpful because customers expect this to become the 'Business as Usual' norm.

We think that demand reduction through water efficiency initiatives for non-households needs to be separately identified from changes in demand driven by growth, economic downturns and commercial business decisions. We anticipate that there will be significant additional demands for water driven by the need to decarbonise the UK to meet Government targets. We need to be wary of creating a situation whereby Wholesalers are unwilling to meet the additional water demand requirements for decarbonisation because of water demand reduction targets. By separating and removing water demand driven by growth, economic and business changes, the performance commitments should just include changes from water efficiency initiatives. Excluding the largest customers seems too simplistic.

It's not clear to us how funding for water efficiency initiatives will be provided to Retailers and Wholesalers. At the moment there is no clarity or transparency and that has hindered progress. Greater clarity on this would be very much welcomed.

We hope that our response is useful. Do let me know if you would like to discuss further.

Yours faithfully



Wendy Monk  
Director of Regulation and Compliance