HOUSE OF COMMONS LIBRARY

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Water: non-household retail competition

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Summary

Water retail services are the customer-facing services provided by a water company such as customer care, billing, selling, metering and advice. A competitive water retail market opened for non-household customers in England in April 2017. Information about the water market is available on the Open Water website. The Library paper, Increasing competition in the water industry (November 2016) provides background information.

In reviews of the market so far, Ofwat and the House of Commons Environment Food and Rural Affairs Committee found that while some businesses have made savings from switching suppliers, there has been low engagement with the market from small companies and that the market has not yet delivered on expectations for water efficiency improvements.

The Government stated in May 2019 that no decision had been made about whether to roll-out retail water competition for domestic customers in England, stating it was looking to learn lessons from the business market first.

Devolved administrations: Scotland established retail competition for non-household water users in 2008. Water retail providers purchase wholesale services from Scottish Water, a publicly owned company. In Wales, only businesses customers that use a minimum of 50 megalitres of water a year can switch supplier. There is no retail competition for water in Northern Ireland.

Coronavirus: support for businesses

England: businesses that have had to close due to coronavirus can inform their water retailer and will not be billed for water if the premises is classified as 'vacant'. Ofwat and the English water market operator MOSL have made regulatory changes to address the impacts of coronavirus on the market as a whole. For further information, see Ofwat's coronavirus information webpage and information from the Consumer Council for Water.

Scotland: The Water Industry Commission for Scotland introduced two schemes to support non-household customers adversely impacted by the coronavirus outbreak. One scheme allows non-household customers to get a refund on pre-paid bills, the other allows customers to request a temporary deferral of wholesale charges.

Wales and Northern Ireland: business customers should contact their water supplier. Welsh Water has offered support including payment holidays and revised payment plans. Information from NI water is available on their Covid-19 webpage

1. Background: what is non-household water retail competition?

1.1 Retail competition in England

Water retail services are the customer-facing services provided by a water company such as customer care, billing, selling, metering and advice.

A competitive water retail market for non-household customers opened for business in England in April 2017. Water companies with retail authorisations can now buy water or sewerage services from the incumbent regional water companies at an agreed wholesale price, and then on-sell those services to non-household customers. This means businesses, charities and public sector organisations. To be eligible the premises must be used mainly for business and be supplied from a wholly or mainly English-based water company.

The regional water companies continue to supply the water and the underlying infrastructure, that is, the water that comes out of customers' taps is the same. The retail companies compete based on retail prices and customer service.

The Government and Ofwat (the economic regulator for the water industry in England and Wales)[1] have stated that potential benefits of a competitive water market include:

- lowering of bills due to increased competition
- improvements in customer service
- allowing water companies to get a single bill for sites operating in multiple areas and
- environmental benefits such as reductions in water use.[2]

MOSL (Market Operator System Limited) is the market operator for the retail water market in England. MOSL is responsible for developing and delivering the core systems and processes that will enable customers to switch between suppliers.

Information about the English water market is available on the Open Water website (a joint Ofwat, Defra and MOSL initiative). Information and support for business customers can be found on the Consumer Council for Water (CCWater) business customer hub.

The Library paper: Increasing competition in the water industry (21 November 2016) provides background information about the consultations and reviews that led up to the opening up of the retail market. The framework for the market reforms was brought in through the *Water Act 2014* (with much of the detail included in secondary legislation).

1.2 Retail competition in the devolved Administrations

The Welsh Government decided not to introduce non-household retail competition in Wales in 2015.[3] Only businesses customers that use a minimum of 50 mega litres of water a year can switch supplier in Wales. For further information see the Welsh Assembly Research Service briefing: The Water Industry in Wales (September 2018)

Scotland established retail competition for non-household water users in 2008. Water retail providers purchase wholesale services from Scottish Water, a publicly owned

1 For further information, see the Library briefing paper, Economic regulation of the water industry in England and Wales (CBP 8931).
2 Open Water [accessed 27 May 2020]
3 Welsh Government, Water Strategy for Wales, May 2015

company.[4] The Scottish market is regulated by the Water Industry Commission for Scotland (WICS). For background information about the water industry in Scotland in general, see the Scottish Parliament Information Centre (SPICe) briefing: SB 16-42 Environment: Subject Profile, 25 May 2016.

There are currently no plans to introduce retail competition Northern Ireland.

2. How is the water retail market in England working?

The House of Commons Environment Food and Rural Affairs (EFRA) Committee in their October 2018 report on regulation of the water industry stated that broadly, the opening of the retail market was viewed positively in the evidence the Committee received, but that there were two areas where the market had not lived up to expectations: water efficiency improvements and the number of small and medium enterprises switching suppliers.[5] On water efficiency, the Committee heard that retailers were not driving the expected benefits on water efficiency and that the market had delivered "unimpressive results". The Committee found that a relatively small number of small and medium sized businesses had engaged with the market, due to low awareness among SMEs of the ability to switch, a lack of trust and understanding of the system and high barriers to engage in the market for low perceived returns for small-expenditure customers.

Ofwat's State of the Market 2018-2019 review (11 July 2019) found that although some businesses had made savings in bills, 47% of customers were unaware of ability to switch and 13% had been active in the market since it opened in 2017 (meaning they had switched provider, renegotiated a deal or considered doing so). Ofwat found that three "market frictions" continued to prevent the market from working to its "full potential":

- **Wholesaler performance:** Poor aggregate performance of wholesalers in meeting industry requirements increases retailer costs
- **Data quality:** A lack of complete, accurate and timely market data – particularly meter reads – impedes parties' ability to trade effectively. Poor data leads to inaccurate or disputed billing and undermines water efficiency measures.
- **Wholesaler – retailer interactions:** Ineffective communication between retailers and wholesalers results in a poorer customer experience and reduces customer confidence in the market.[6]

Ofwat concluded that "significant and urgent action" was required by the sector to improve outcomes for customers.

The National Audit Office (NAO), in its March 2020 report on Water supply and demand management, found that the market had not met the water efficiency savings expected and that awareness and take-up had been lower than anticipated, with few organisations reporting that they had received water efficiency advice or leakage control services as part of their package.[7]

4 Scottish Water, Business & the Water Industry in Scotland [accessed 27 May 2020]
5 House of Commons Environment Food and Rural Affairs Committee, Regulation of the water industry (PDF), 2017-19 HC 1041, 9 October 2018, para 65; Government and Ofwat response (PDF) published 21 December 2019.
6 Ofwat, State of the Market 2018-2019 review, 11 July 2019.
7 NAO, Water supply and demand management, March 2020, para 17, 3.12-3.15.

3. Coronavirus: business customers and the water retail market

Business customers in Wales and Northern Ireland should contact their water supplier to discuss options for support if they have been adversely impacted by the coronavirus outbreak. Welsh Water has offered support including payment holidays and revised payment plans. Information from NI water is available on their Covid-19 webpage.

3.1 England

In April, Ofwat and MOSL put in place measures such that businesses that had to close due to coronavirus are not billed for water if the premises is classified as 'vacant'. Customers may still be charged for any water used at the premises during this time when the next meter reading is taken.

Businesses need to let their water provider know that they are temporarily closed for changes to their bill to be put in place. Water retail providers cannot charge interest for late payments, apply late payment charges, disconnect customers for missing payments or collect outstanding debts during the coronavirus period. For further information, see the Consumer Council for Water webpage: Help for business customers during coronavirus.

Business customers using less water or facing trouble or delay paying bills creates a knock-on impact for the retail water company itself, which may then struggle to pay wholesale charges. Wholesale water settlements are usually agreed in advance based on past consumption. In response, Ofwat and MOSL put in place regulatory measures to address the impact of coronavirus on the water market as a whole including issues of liquidity and bad debt. For further information, see the Ofwat webpage: Information on the water industry and Coronavirus (Covid-19).

3.2 Scotland

In May 2020 the Water Industry Commission for Scotland introduced two schemes to support non-household customers adversely impacted by the coronavirus outbreak:

- Prepayment Refund Scheme: allows non-household customers to receive a refund of pre-paid charges for water and services that have not been used.
- Wholesale Charge Deferral Scheme: allows metered customers impacted by the pandemic and who are now using less water to defer wholesale volumetric charges. The scheme also allows unmetered customers and customers on a small meter a deferral of 60% of their fixed wholesale charges.

The schemes will continue until September 2020 with the possibility of extension. The schemes followed the temporary suspension of wholesale water pre-payment charges due to Scottish Water by water retail companies in April,[8] after the Commission found that only limited support had been passed onto end customers.[9] The suspension of wholesale charges for retailers will also continue until September 2020.

Further information is provided on the WICS coronavirus webpage: Measures to support business customers.

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8 Scottish Government, Support for business water bills, 23 March 2020; Scottish Water Coronavirus webpage [accessed 27 May 2020].

9 WICS, COVID-19 Response and Decision on Measures in Support of non-household Customers and to protect Household Customers, May 2020.

4. Retail competition for household customers in England?

In November 2015 the then Government announced that it would also seek to extend retail competition to domestic customers in England, beginning the transition "before the end of this Parliament".[10]

The Consumer Council for Water carried out research into household customers' views on water competition in May 2016, finding that while two-thirds of customers would like the freedom to switch suppliers, only one-third said they were likely to switch when informed that cost savings could be as small as £4–£8 on the average bill.[11] Ofwat published an assessment of the costs and benefits of extending retail competition to domestic customers in September 2016. Ofwat found that overall the financial benefits of opening the market should exceed the costs but that reductions in customer bills could be limited, especially in the short term.

There has been no further action to open-up competition to domestic customers. The Government's Statement of Strategic Priorities to Ofwat (September 2017) stated that Ofwat and the Government should work together to develop the evidence base for domestic retail competition further before Ministers take a decision on whether or not to introduce competition:

> Ofwat should work with the government to develop the evidence base further, in order to enable the government to understand fully the case for extending competition to households. Ministers will then take a decision on whether or not to introduce competition in the household retail market. Moreover, we acknowledge the importance of addressing the issues identified in this analysis, such as high and rising levels of bad debt, and the need for greater innovation in the water sector. Ofwat should continue to consider how it can address these issues within the current regulatory framework, including through increasing competitive pressure.[12]

In May 2019, the Government stated that there had been no decision made about whether to roll-out retail water competition for domestic customers, stating it was looking to learn lessons from the business market first, "particularly with regard to the impacts on bills, customer service, innovation and efficiency".[13]

10 HM Treasury, A better deal: boosting competition to bring down bills for families and firms (PDF), CM 1964, November 2015.
11 CCWater, Household support for water competition hinges on bill savings, 20 May 2016
12 Defra, The government's strategic priorities and objectives for Ofwat (PDF), September 2017, para 41.
13 PQ253653, 20 May 2019]