

UKWRC - Independent Water Commission – Call for Evidence - online submission

22nd April 2025

Questions 36, 48, 50 and 66 responded to.

36. What, if any, changes would help ensure customers are paying fairly for the water they use? (Please select all that apply)

- Increase the use of smart water meters
- Explore innovative water charging (such as rising block tariffs or other innovative tariffs) to support affordability and/or efficient use of water
- Other (please specify)

Smart metering is a prerequisite to deliver the water demand reductions from NHH customers and achieve the Government's targets. It will allow customers to monitor and manage demand and facilitate the introduction of innovative tariffs.

Creating a fully liberalised smart metering market, with national standards, will help deliver benefits of innovation and competition to those services.

The current lack of national coordination for smart metering risks a fragmented rollout to the detriment of business customers, particularly those with multiple sites.

We urge the Commission to recommend that:

- (a) Meter provision becomes a competitive activity, where wholesalers, retailers and 3rd party providers are all able to compete on a level playing field to deliver the best and most efficient smart metering services.
- (b) National smart metering standards are developed and enforced to ensure interoperability of the various smart metering solutions being deployed.
- (c) Until meter provision becomes a fully competitive activity,
 - 1) there is an obligation placed on wholesalers to publish and consult on rollout plans for their regions and to communicate planned timings of smart metering installations.
 - 2) wholesalers are obliged to consult Retailers in relation to: i) prioritisation of meters for greatest benefit ii) not removing customer's data loggers and iii) managing multi-site multi-region customers to ensure they retain consistency in the data and service across all of their sites.

48. To what extent should further competition in the water industry be encouraged through regulation?

(Please answer below and provide evidence and examples, where possible)

Further competition in the water industry should be encouraged, and requires a new approach to regulation. In particular, amendments to the Retail Exit Code (REC) will help extend the benefits of competition to more non-household customers, as observed when similar amendments were made Scotland, and creating a fully liberalised smart metering market (with appropriate national standards) will help bring the benefits of competition to those services, with associated benefits to the achievement of water savings targets.

The current manifestation of the Retail Exit Code Price Control for all but the largest customers is a cap on the prices that can be charged, based on the average cost to serve. This means that Retailers cannot set prices to reflect the actual costs of supplying customers where these costs are higher than that average. To take a simple example, if the market had two broadly similar customers, and that due to the service options they have selected, one cost £50 to serve and the other cost £100 to serve – the price for each customer would be capped at £75. This forces Retailers to supply the more expensive customer at a price that is materially below the cost of serving them. The lack of cost reflectivity in pricing is damaging to the market and means that a large percentage of the customers cannot benefit fully from competition. Arguably, it also has the effect of foreclosing the market for these customers, as competitors would be deterred from entering the market to compete.

It is instructive to review the Scottish model. In Scotland, c. 3 years into the NHH market the WICS was faced with only c. 3% of customer having switched. The gross margin at that time was c. 10%. WICS increased the margin to give scope for discounting, additional margin to fund added value services, and an incentive for customers to engage. As a result, well over 50% of SMEs have switched. Market awareness was also raised by retailers themselves through sales and marketing activity.

We urge the Commission to recommend:

(a) that the Retail Exit Code, both price and non-price restrictions, is replaced by a regulatory protection that is more conducive to competition, or a single national backstop price for all customers set by reference to the highest cost customers; and
(b) that an appeals mechanism is included for any price restrictions or price caps that are imposed that would allow these to be appealed to the Competition and Markets Authority or equivalent body. We note that water retailers are in a unique position among regulated utilities in not having this route of appeal.

As noted in our response to Question 50, below, creating a fully liberalised smart metering market (with appropriate national standards) will help bring the benefits of

competition to those services with associated benefits to the achievement of water savings targets.

50. Which of the following changes to competition schemes, if any, would improve outcomes for the sector? (Please select all that apply)

- Changes to the business retail market, to focus on where it is most beneficial (for example, limiting the business retail market to large customers)
- Changes to the business retail market, to ensure efficient use of water (for example, updating water tariffs)

We agree - further changes should be made to benefit competition for customers and the environment. Amendments to the REC would deliver further benefits for non-household competition, including replacing the existing price caps and allowing any future price restrictions to be appealed to the CMA. We set out details of this in our response to Q.48, above. Plus, creating a fully liberalised smart metering market (with appropriate national standards) will help bring the benefits of competition to those services with associated benefits to deliver the water savings targets.

The current lack of national coordination for smart metering risks a fragmented rollout to the detriment of business customers, particularly those with multiple sites in different regions. We urge the Commission to recommend that:

- (a) Meter provision becomes a competitive activity, where wholesalers, retailers and 3rd party providers are all able to compete on a level playing field to deliver the best and most efficient smart metering services.
- (b) National smart metering standards are developed and enforced to ensure interoperability of the various smart metering solutions being deployed.
- (c) Until meter provision becomes a fully competitive activity, there is an obligation on wholesalers to publish and consult on rollout plans and to communicate planned timings of metering installations. These plans should include post-rollout activities.
- (d) Until meter provision becomes fully competitive activity, wholesalers are obliged to consult Retailers in relation to:
 - i) prioritisation - where smart meters will deliver greatest benefit (such as large volume customers and hard to read meters)
 - ii) not removing data loggers where customers have them and
 - ii) managing multi-site customers particularly those with sites across multiple Wholesaler regions to ensure customers retain consistency in the data and service they receive across all of their sites.

On achieving water savings, the evidence of recent decades is that wholesalers' scope for delivering water savings is limited. From Retailers' experience, customers have a low appetite for water efficiency services, even when offered free of charge. Greater competition and innovation in the delivery of water efficiency services is needed. To secure this, Government should adjust policy directions or legislation to strengthen requirements on businesses to demonstrate they are water efficient. It is important that these changes are designed in a way that allows for, and supports, businesses to grow.

We urge the Commission to recommend that the Government create a national Water Efficiency Forum, led by Defra, involving all relevant parties, that:

- (a) defines national standard metrics to quantify the extent to which NH customers are water efficient and
- (b) makes recommendations as to what obligations and/or incentives should be applied to businesses and public sector institutions to ensure they give due focus to water efficiency.

66. Which of the following changes in the sector, if any, would enable innovation outcomes? (Please select all that apply)

Other (please specify)

The rollout of smart metering has the potential to herald a wave of innovative service offerings and outcomes, reducing demand and enabling growth. Retailers are ideally placed to maximise the benefits of this transition using their national geographic coverage and close relationships with business customers. This combination – smart metering and retailer customer focus – together with greater awareness and incentives on customers - will be essential in delivering the step change reduction in demand that previous wholesaler-led water efficiency measures have failed to achieve,

However, the current lack of national coordination for smart metering risks a fragmented rollout to the detriment of business customers, particularly those with multiple sites in different regions. We urge the Commission to recommend therefore that:

- (a) Meter provision becomes a competitive activity, where wholesalers, retailers and third-party providers are all able to compete on a level playing field to deliver the best and most efficient smart metering services.
 - (b) National smart metering standards are developed and enforced to ensure interoperability of the various smart metering solutions being deployed.
 - (c) Until meter provision becomes a fully competitive activity, there is an obligation placed on wholesalers to publish and consult on rollout plans for their regions and to communicate planned timings of smart metering installations.
- Further details are set out in our response to Q.50.