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10 February 2017

Stephen Beddoes, Retail Market Opening Principal
Ofwat, Centre City Tower, 7 Hill Street, Birmingham, B5 4UA
MarketMonitoringConsultation@ofwat.gsi.gov.uk

Dear Stephen,

Re: Monitoring the business retail market from April 2017 - a consultation

Waterwise are pleased to respond to Ofwat's consultation on Monitoring the business retail market from 2017. Waterwise was founded in 2005 and has become the leading authority on water efficiency in the UK and Europe. We are an independent, not for profit organisation, that receives funding from the UK water industry, wider sponsorship and research projects. We like to be at the front, leading and supporting innovative efforts to realise our mission; that water will be used wisely, every day, everywhere.

In our consultation on A Water Efficiency Strategy for the UK, we outlined the potential benefits of competition for water efficiency as well as challenges. Business Stream have reported in 2015/16 having reduced water usage by 24 billion litres of water, equivalent to 42,000 tonnes of carbon emissions since 2008. They also reported this as £53m in water efficiency savings and £7m in reduced energy costs.

As was highlighted by several stakeholders at our recent Waterwise Retail Competition event, there is a need for better monitoring of these savings in England to ensure the market is working and to provide a stronger evidence base if retail competition includes domestic customers in future. Ofwat's emerging findings on the costs and benefits of residential competition suggest that water efficiency could have a net benefit of between £98m and £398m. This along with the £177 potential metering benefit would make a large impact on the less innovative and competitive scenarios if not achieved.

Attached are our detailed responses to your consultation questions and we hope to work closely with Ofwat, CCWater and retailers to promote and monitor water efficiency delivered under retail competition.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Aaron Burton". The signature is stylized and cursive, located below the text "Yours sincerely,".

Aaron Burton MCIWEM C.WEM CEnv CSci
Director of Projects and Programmes

Response to consultation questions

Q1 Are there any other objectives that market monitoring could or should fulfil in addition to those mentioned in section 2.3?

- Effective communication between wholesalers and retailers is important for both water resources planning and drought planning. Although this is outlined within market codes we believe that a specific monitoring objective should be developed on this based on the potential impact on large scale investment by wholesalers in the 2019 Periodic Review.
- Although better service levels and more innovative products and services are included, water efficiency should be a specific objective as this has benefits to businesses, wholesalers and retailers.

Q2 Do you agree with the issues we propose to monitor? What issues do you think should be monitored particularly closely?

We particularly support Ofwat's intent to monitor customer outcomes:

- Recording tariff levels and how customers react to this will help improve understanding of price elasticity for different customer segments and the impacts on water efficiency. This could also help identify any perverse incentives from bundling of water services with energy or telecommunications that results in discounted water tariffs and potential increases in consumption.
- Understanding consumption segmented by business types, number of sites etc. would also provide a valuable resource for assessing benchmarking of consumption and impacts of new services. A key issue discussed at the Waterwise Retail Competition event was the potential impact of low margins on retailers providing water efficiency services for SMEs. It was noted that the data for Scotland wasn't segmented but we should do this for the market in England.
- Monitoring the range of services – water-only or multi-utility would help identify benefits of joint water and energy efficiency but also perverse incentives as outlined in the first point on tariffs.
- The range of services offered would be of interest (i.e. types of water efficiency, rainwater harvesting, water re-use, smart metering, leak detection, storm water management etc.).

Q3 Do you agree with the type and format of the information we are planning to obtain from the market operator? We welcome views on:

- **the choice of metrics, their usefulness for our assessment of the market and ways of ensuring they are as useful as possible; and**
- **the availability of that information, the opportunities and limitations of obtaining information from the market operator, including sources that could supplement it.**

We support the use of the Market Operator and the Central Market Operator System (CMOS) as the primary method for collecting information.

- Building water status – any insight into future demand for water from this indicator should also help wholesalers in long term water resources planning. Additionally, this could be a key area to target for water efficiency.
- Remote read flag – in addition to identifying areas using or targeting this technology, when segmented by volume and compared over time this can help develop evidence on the benefits of smart metering and water management.
- Customers by Standard Industry Classification Code – this is important to retail and has been a limiting factor in wider research on benchmarking, use of water across industry sectors (e.g. by WRAP), and on the impacts of drought and temporary use ban communications on businesses. Retail competition provides an opportunity to ensure retailers all use a standard system for classifying businesses to help in future research and analysis.

Q4 What information will retailers hold that will help us achieve our monitoring objectives? We welcome views on:

- **the choice of metrics, their usefulness for our assessment of the market and ways of ensuring they are as useful as possible;**
- **the availability of that information, including where else we could obtain the information that we would like retailers to provide;**
- **the best way for retailers to share that information with us (eg most appropriate format);**
- **whether retailers will be able to segment information in the way we require; and**
- **the best way to make sure the regulatory burden is proportionate, especially for smaller retailers.**

- As outlined in our response to Question 2 we particularly support the collection of consumption data, water efficiency measures and tariff data.
- Consumption data should be provided at least annually to help assess any changes linked to retail competition. This could be provided at a higher resolution though, for example for customers with smart meters.
- Retailers should look to use SIC codes and have the opportunity to quality assess these as they engage with customers.

- Water efficiency measures could be reported against a range of general categories – as was the approach Ofwat took to the Water Efficiency Target's for domestic water efficiency. Waterwise could work with Ofwat and retailers to develop this.
- The annual customer insight survey should include water efficiency explicitly to help track awareness of this among businesses. This awareness and segmentation can then be correlated with changes observed in consumption datasets provided by retailers.

Q5 We would welcome views on our proposal for informal monitoring, any other tools we could use, and how we might make the best use of the information available.

Informal monitoring provides an interesting approach. For water efficiency, there may be information that Waterwise and other organisations receive via social media interaction that could be of use also. For this to be of use it would help to clearly communicate any hashtags to be used by customers linked to retail competition so that responses can be aggregated more easily.

Q6 We would welcome views on how best we could involve third party intermediaries in our monitoring framework, which information would be best to collect and how we could obtain it.

Third Party Intermediaries could have an important role to play in promoting water efficiency services as a reason to switch supplier. At our Waterwise Retail Competition event there were potential issues raised by retailers where TPIs may be over-estimating the percentage reduction in bills achievable. As part of the voluntary code for TPIs, they could be requested to submit information on water efficiency services they highlight and customer segments they are targeting.

Q7 We would welcome views on how best to collect useful information on market segments. In particular, we would welcome views on challenges to deriving the market segment information we envisage and ways of overcoming them.

We support the approach to segmentation. In addition, industry sector segmentation (by SIC code) would be of use for further research on water efficiency but also customer communications (e.g. during a drought). Other elements of benchmarking best practice water use include data on occupancy level for offices and a range of output factors for process industries. These could also be useful to understand water efficiency being delivered vs potential best practice.

Q8 How can we best make sure that relevant information is shared in a transparent and useful manner, whilst also being mindful of commercial and personal confidentiality and without prejudice to competition law?



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We support the proposal to make aggregate data available where possible. Although there are commercial confidentiality issues with some of the more detailed information on customer outcomes, this could be readily anonymised for analysis by Ofwat, CCWater, Waterwise and others. Open data can enable retailers, researchers and others in the sector to help innovate on water efficiency services. If this was initially available on the Open Water website and then in future through API links to data held on CMOS reviews could be undertaken of how useful the data is and if it is being used. Consideration should also be made about joining up data provided by wholesalers to the discoverwater.co.uk portal.