

deregulation of the **water market** in England

Treatment Solutions UK



water market deregulation

England 2017

what will it mean for businesses?

In 2017, the market for supplying water to businesses in England will follow the route already taken in Scotland and will enable companies (non-domestic water users) of all sizes to choose their water supplier.

This is in much the same way as companies have in recent years been able to shop around for the best energy deals from different suppliers.

In principle, this offers considerable opportunity for companies to cut their water costs, by eliminating inefficiencies, reducing the complexity of sourcing across multiple sites, providing single billing rather than multiple billing from different regional suppliers, and exploring ways of reducing consumption.

In practice, it's likely that the situation will become more complex before its intended benefits begin to be realised, with the risk that many industrial and commercial organisations will temporarily be diverted from their core activities as the 2017 deadline approaches.





the history of deregulation

an opportunity to cut costs

Competition for water services was first introduced in England as long ago as 2003, when high volume commercial customers (i.e. non-domestic) using more than 50,000 m³ (50 Megalitres) of water per year were able to switch supplier. This Water Supply Licensing programme was, however, limited in scope and did not introduce realistic financial incentives or a suitable market structure to create true competition.

Although the threshold in England was subsequently reduced to 5,000 m³ (5 Megalitres) per year, the same basic restraints continued to apply to the market. In particular, with over 22 different water suppliers across the country,

issues such as non-standardised billing, complex tariffs, low levels of customer satisfaction and high costs for companies in dealing with transactions across multiple sites, have become common.

In Scotland, the situation is different. Water market deregulation has been in force since 2008. As a result, it is estimated that there has been efficiency savings worth over £43 million, with customers saving around 20 billion litres of water and around 42% of businesses taking the opportunity to renegotiate the arrangements for their water and sewerage services.





The Scottish market structure is relatively straightforward, with the country's 130,000 non-domestic customers currently being able to choose between up to 24 different retail suppliers or Licensed Providers. Each of these retail suppliers purchases water and/or sewerage services at wholesale prices from Scottish Water, which remains responsible for maintaining the publically owned water infrastructure (pipes, mains and treatment facilities). The licensing authority and regulator is the Water Industry Commission for Scotland (WICS), with a separate body, the Central Marketing Agency, being responsible for transferring customer information between suppliers and for calculating the wholesale transactions between suppliers and Scottish Water.

The general consensus is that deregulation of the water market in Scotland has been successful. As a result, and based on this experience, the Government in England now proposes to remove the current consumption threshold for all non-household premises in England in 2017.

The Welsh market is open to non-domestic water users (not sewerage) of more than 50,000m³. However, the Welsh Government has decided not to implement further retail competition as they remain to be convinced as to the measurable benefits this will have for Wales.

In Scotland, 130,000 non-domestic customers can currently choose between up to 24 retail suppliers or licensed providers.



the water act 2014

introducing flexibility and choice

The first significant step towards establishing a retail water market in England was the introduction of the Water Act, which passed into law in 2014. This Act is intended to allow all non-domestic business customers, plus public sector, charitable and not-for-profit organisations in England, to choose their supplier of water and sewage services, regardless of where they are located in the country.

The objective is to make it possible for businesses to negotiate the package of services to meet their exact requirements, in terms of price, efficiency, customer service and support. Perhaps as importantly, the Act allows water companies to sell and supply water to each other and enables incumbent water or sewerage companies, with the consent of the Secretary of State, to withdraw from the market - the so called 'retail exit'. The Act also enables owners of small scale water storage facilities to sell surplus water to the public supply network, although planned implementation of this 'upstream competition' is not expected before 2019.

The market model will be similar to that in Scotland, with wholesalers selling water to licenced retailers, who in turn supply non-household customers with retail services, billing, meter reading and operational information.

A centralised market operator manages the flow of customer and transactional data between the wholesalers and licenced retailers. Wholesalers can also supply operational services direct to non-household customers.

If water companies chose to provide both wholesale and retail services, the two areas of their business must be managed separately and they must be able to demonstrate that they treat all retailers equally and without any preference.

Since 2014, a programme of consultation and planning has been in place, to develop and test the appropriate price control frameworks, IT systems and protocols to ensure a successful go-live date in the second quarter of 2017. A key part of the process is finding ways to centralise and amalgamate multiple data sets, containing customer and supply records from all the current water companies, many of which use dissimilar legacy systems. This work is being managed under the Open Water Programme, which was set up by the Government, drawing together expertise from a variety of key market participants, including Defra, Ofwat, Market Operator Services Ltd (MOSL) and other interested stakeholders.



Deregulation should drive down costs for businesses.

what does this mean for your business?

In simple terms, this should give you the opportunity to reduce the cost of your water and sewage services, either through renegotiation with your existing supplier or by transferring to a new supplier.

In practice, however, there are likely to be a number of teething problems that may not become obvious until the 2017 deadline has passed, or that may not be straightforward to resolve in advance due to lack of appropriate customer records. For example, problems may occur with companies that operate from multiple sites around the country, or for businesses that have premises where the definition of household and non-household is unclear; i.e. where both business rates and council tax are levied. Additionally, there may be issues where a business with multiple premises separated by houses or common land might be unable to switch supplier.

There is also a risk that, rather than becoming transparent, pricing structures may actually become more complex. At present, it is proposed that the rules on wholesale price will be determined by Ofwat. However, each water retailer may have varying margins for different customer groups or volume users, which may not be sufficiently flexible to fit within the proposed model, thereby making it difficult for all customers to negotiate worthwhile discounts.

In addition, for many customers, price will only be part of their requirement; they may, for example, place equal or greater value on factors such as single billing for multiple sites, flow monitoring, security of supply, greater water efficiency, enhanced customer or water hygiene services or carbon reduction.

Clearly, finding your way through this potentially tangled maze of options and pricing mechanisms may not be straightforward.

Nonetheless, the Water Act 2014 offers considerable opportunity for businesses to improve the quality and sustainability of their water supply, with the potential to reduce costs. Although the final implementation is yet to be determined in all its details, businesses in England need now to be considering their options and developing effective strategies, to ensure that they reap the benefits once the market is opened fully.

► **At present it is proposed that the price per unit of water will be determined by OFWAT.**





what's next?

For companies and organisations in England there will be a number of fundamental questions that they need to answer, to enable them to develop a cost-effective strategy to manage the future of their business with regard to water resources and wastewater disposal.

Deregulation will undoubtedly create new opportunities. It may also lead to greater market complexity, especially if proposed competition for the supply of treated or raw water and the removal of waste water or sewage treatment is introduced after 2019. Market complexity may increase still further if consumer suppliers are also deregulated.

For many businesses, although water is a vital raw material, its management is not always seen as a core activity; indeed, it's effectively a cost centre and requires dedicated resources in the form of staff, equipment and time. Preparing for the 2017 deadline, subsequently ensuring that the best deal is negotiated and then managing this on an on-going basis, is likely to add to the overall cost.

One option is to outsource all or part of the responsibility for water supply, purification and quality, plus wastewater treatment and disposal, together with duties such as price and supply cost negotiations,

abstraction licences and discharge consents. In many respects, outsourcing the management of water and wastewater – in total or in part – to an industry expert is no different from many other non-core business services, such as warehousing, IT or payroll. The key is working with a partner with the expertise, knowledge and resources to ensure security of supply with levels of efficiency that deliver real, long term cost savings.

Whatever the longer term outcome, now is an ideal time to reassess the broader subject of water management.





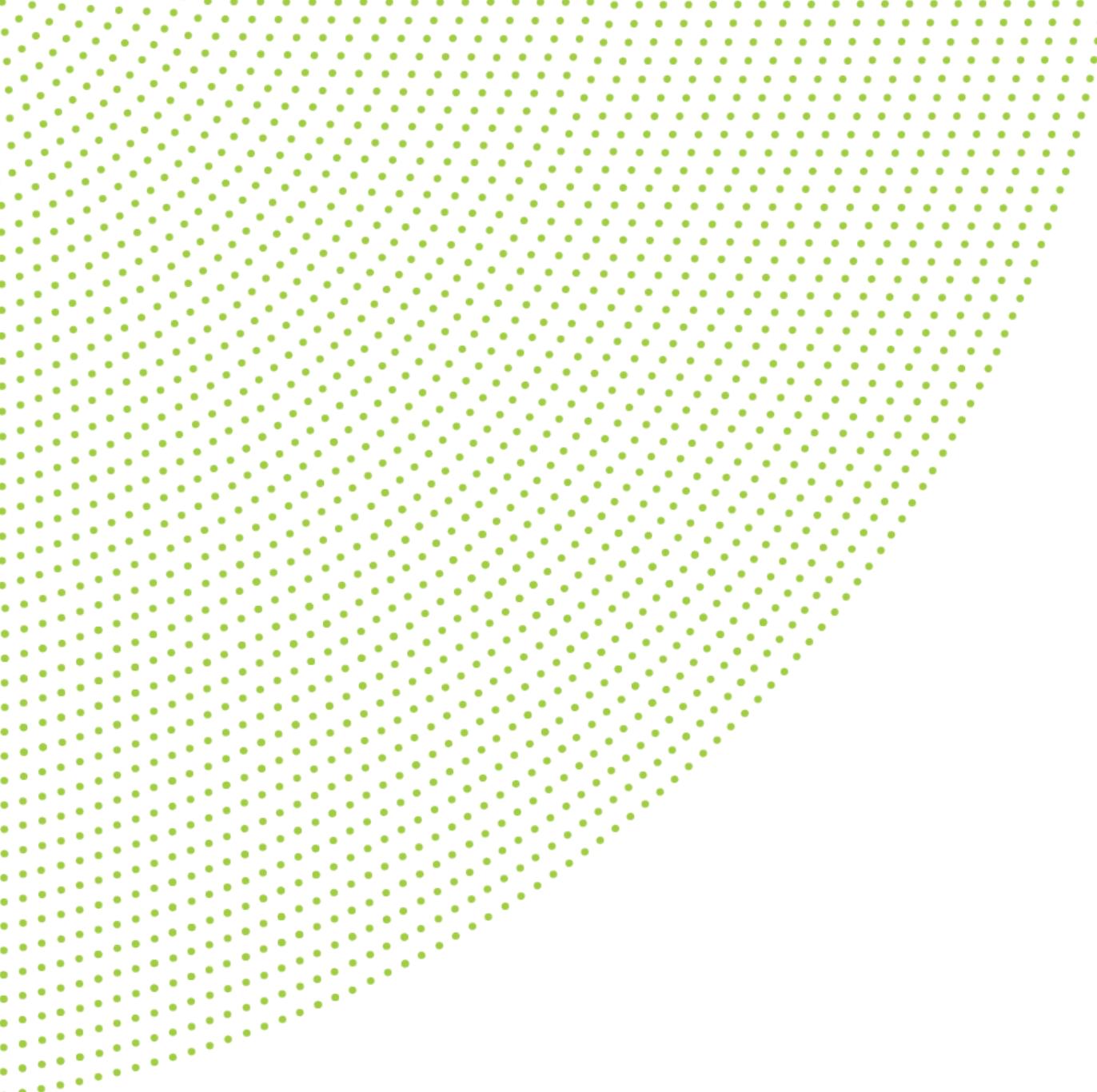
water and waste water management

SUEZ Treatment Solutions UK has been involved in the business of water and wastewater management for industrial and commercial organisations, large and small, for many years. As a licensed provider in Scotland, we understand how the water market works, how deregulation will impact your business, the risks and the challenges of managing water resources cost-effectively and sustainably.

We can provide impartial advice and assistance to optimise your supply arrangements, with the best operational solutions to meet your technical and commercial objectives. We can support your in-house teams, provide a fully managed package of water and wastewater services, and build incentivised agreements for water quality, control, optimisation and risk reduction.

Ultimately, our goal is to enable you to focus exclusively on your core business activities, while reducing the cost, risk and complexity of managing your water and wastewater systems.

► Globally, we supply 92 million people with drinking water and have over 323,000 industrial and business customers.



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