

EFRA Committee Inquiry on the White Paper, 'Water for Life': Submission from WICS

Executive summary

- The Water Industry Commission for Scotland (WICS) welcomes the UK Government's White Paper and looks forward to working with the Scottish Government, Defra and Ofwat to establish an effective Anglo-Scottish retail market.
- Such a market would reduce costs, generate innovation and bring environmental benefits. It will also add to the benefits already being realised in Scotland.
- We introduced retail competition in Scotland in 2008. This experience suggests that successful implementation of retail competition in England requires:
 - companies, entrants and regulator to work together closely;
 - an agreed date for and work-plan towards market opening;
 - no customer to be worse-off as a result of market opening;
 - a level playing field for the incumbent and potential new entrants; and
 - sufficient time to be allowed for all the tasks necessary for market opening.

Response

1. WICS welcomes the opportunity to respond to the Committee's call for evidence on the UK Government's White Paper (WP) on the future of the water and sewerage industry.
2. We consider that the WP sets out a realistic and balanced strategy for the water industry, focusing on resilience, improved resource management and the introduction of competition. It balances the need to continue to attract investment, safeguard the environment and respond to more uncertain weather patterns with the customer's ability to pay for and perception of the legitimacy of charges.
3. This response focuses on the WP's proposals for retail competition as we have already successfully designed and implemented such a framework in Scotland.
4. In line with the Water Services etc. (Scotland) Act 2005, WICS licenses retailers that buy wholesale water and sewerage services then sell to businesses and public sector customers. Every non-household customer (irrespective of size or location) can choose the supplier that offers the best price and services.

5. It took more than four years (over three after the 2005 Act) to implement the framework. The market opened in April 2008.
6. The results have been very positive. More than 50% of non-households have renegotiated the terms of their supplies. There is a new emphasis on providing additional, tailored services that result in lower bills, lower consumption and reduced environmental footprints.
7. Household customers also benefit as retailers pressure Scottish Water to improve efficiency. In addition, contracts have been tendered for the whole Scottish public sector, saving taxpayers an estimated £20 million.
8. The WP's proposals for a retail market should bring similar benefits to customers in England. They will also benefit customers in Scotland – we would expect new English retailers to enter the Scottish market and existing participants to increase further their activity, improving the service and price benefits available in Scotland. More tailored services would also bring further environmental benefits.
9. The biggest beneficiaries may be customers with sites throughout England and Scotland who would be able to select one nationwide supplier.
10. We welcome the proposals that a Scottish retail licence should be recognised in England and vice versa. We look forward to working with Defra, the Scottish Government and Ofwat in establishing an effective Anglo-Scottish retail market.
11. Experience suggests that there are five factors that are likely to be important to successful implementation. These are outlined below.
12. First, it will be essential to success for the incumbent water companies, new entrants and regulator to work together closely and collaboratively. Most elements of a retail framework require at least two parties (from the incumbents, entrants and regulator) to work together. An example is the Operational Code. The wholesale business should be responsible (as it has to reflect how it provides water and wastewater services to customers) but must also consider the needs of entrants.
13. Second, Government, companies, entrants and regulator should agree and commit to a date for and work-plan towards market opening. This would be an important discipline, allowing each party to hold others to account for delivering aspects of the framework for which they are responsible. It also allows new entrants to plan and creates clarity for customers on when they will have a choice.
14. Third, no non-household customer should be worse-off as a result of market opening. Price and service level incidence effects of the new retail framework will have to be managed. Avoiding incidence effects is important: planned changes resulting from periodic price setting must be separate from changes in tariff that might result from retailer activity. In Scotland we ensured that the 'default' retail tariffs were no different from the regulator-set charges that would otherwise have applied.

15. Fourth, the framework should ensure, and be seen to ensure, a level playing field for both the incumbent and the potential new entrant. Dealing with legacy agreements, in particular, is not straightforward. A level playing field gives confidence to customers and entrants that the market will reward innovation, efficiency and high-quality service. Experience in Scotland is that tenders have resulted in step function changes in retailer performance.
16. Finally, preparatory work is complex and time-consuming. Particularly complex issues include:
- Competitive retail tariffs will have to be developed, reflecting appropriate retail cost drivers and scope for savings (for example, bad debt charges for different classes of customer).
 - Wholesale charges will need to be designed. The definition of wholesale activities and the results of the next periodic review of charges will need to be taken into account, as will the appropriate retail margin for each customer class.
 - Any data accuracy issues (around definition of premises and information on customers, particularly with regard to connection type) will need to be improved before market opening – otherwise the effectiveness of the market is reduced. With hindsight, WICS and other stakeholders in Scotland could have paid more attention to this issue.
 - Registration and settlement processes are fundamental to a smoothly functioning market, allowing wholesale charges to be calculated and retailers to transfer customers. Transparent governance rules are also key to efficient market entry, exit and alteration of market codes.