

Water deregulation for the business retail market in England

May 2017

Since April 2017, 1.2 million businesses, charities and public sector organisations in England can buy water from any licenced water retailer they choose. This means they can change supplier, as is possible for other utilities.

The thinking being to increase competition and innovation in the sector. Ofwat reports that some businesses are already getting price reductions and others are using water more efficiently due to new apps and services that retail suppliers are launching, such as Water Plus's leak detection app¹. Deregulation may also lead to new bundles of utilities and other services.

A similar change happened in Scotland, from 2008. Business Stream, an arm of Scottish Water, claims that around £100 million has been cut from business customers' bills in six years - half due to price discounts (which started at around 5% and have risen to 15-25%) and half from water efficiency measures (such as water auditing, leak detection, electronic billing and efficiency advice)². Defra believes the change could deliver £200m in benefits to customers and the UK economy over the next 30 years³.

According to Ofwat there are no price comparison websites as yet and so businesses have to ask retailer suppliers for their best prices. To reduce some of the administration time, www.englandontap.co.uk has a form which can be sent to all suppliers. The Open Water website outlines how to switch retail supplier.

Currently utility brokers believe it will take a year for the water companies to put the systems in place to allow for swapping suppliers and in the short term they are unlikely to change their prices by much.

Large water users may also become 'self-suppliers', resulting in their ability to agree a price directly with a water wholesaler. There are few examples at the moment (Ofwat could only identify one brewery).

On farms, most water comes from the mains water supply and so any discounts could save money, although water use is typically just 1-2% of a farm's fixed costs⁴. There may also be the opportunity for groups of farmers to negotiate prices with the retail suppliers or even become 'self-suppliers'. At the time of writing, there is no data on uptake by farmers.

How does the market work?

It will work like many other open utility markets, such as telecoms, electricity and gas. Retail suppliers will buy wholesale services (the physical supply of water and/or removal of wastewater) and offer a package to sell to eligible customers.

Regional water companies will continue to serve non-eligible and household customers.

Who's who in the market?

Customers	There are 1.2 million non-household customers in England eligible to choose their supplier of retail services. There are an additional 130,000 business customers in Scotland.
Retail suppliers	Retail suppliers are able to compete for the custom of all eligible business customers. 14 water companies have applied to become licensed retailers, and further applications are pending, according to Ofwat (as at 140117).
Wholesalers	The regional water companies that own and operate the network of pipes, mains and treatment works. They sell water and wastewater services to retail suppliers.

1 Personal communication with Ofwat, 100517

2 Source: Business Stream, 020714.

3 It is unclear from Defra's statement whether this is a benefit of £200m each year or over 30 years.

4 Water usage on farms: Results from the Farm Business Survey, England 2014/15. Defra, 210116. Water Usage in Agriculture and Horticulture. Results from the Farm Business Survey 2009/10 and the Irrigation Survey 2010. Defra, 090611.



- Open Water** Open Water is the name given to the programme set up by UK Government to open the new business retail market. The programme is being led by three partner organisations – Ofwat, Defra and MOSL. Open Water shares information about the market with customers.
- Ofwat** Ofwat is the economic regulator and the licensing authority for the sector: in order to operate, suppliers must be awarded a licence.
- MOSL** Market Operator Services Limited has been set up to create the IT infrastructure to enable switching to happen.
- WICS** The Water Industry Commission for Scotland is responsible for regulation of the competitive market in Scotland.

Wales

Wales has chosen not to deregulate and so businesses will continue to be supplied by Welsh Water.

Contact us

Jason Beedell

Partner, Research

M: 07795 651493

E: jason.beedell@struttandparker.com

Kathryn Brown

Land Management

M: 01223 459 475

E: kathryn.brown@struttandparker.com

Copyright Strutt & Parker, 2017. All rights reserved. No part of this publication may be reproduced or transmitted in any form without prior written consent by Strutt & Parker. The information contained herein is general in nature and is not intended, and should not be construed, as professional advice or opinion provided to the user, nor as a recommendation of any particular approach. It is based on material that we believe to be reliable. Whilst every effort has been made to ensure its accuracy, we cannot offer any warranty that it contains no factual errors.

Correct as at	Review date	Person responsible	Tags / KB categorisation	Type
10 May 2017	10 August 2017	Jason Beedell Research 0207 3814757 07795 651493 Kathryn Brown 01223 459 475	Property water deregulation Open Water Ofwat business Copy these into Tags, in the File, Info menu	Briefing