

27 June 2024

## Strategic Panel Open Letter on Water Efficiency

Dear Stakeholder,

Since it was established two years ago, the Strategic Panel has sought to work with stakeholders to deliver improvements to the non-household water market. One of our three desired market outcomes is to make water efficiency core to the market<sup>1</sup>. The government has set a target to reduce non-household consumption by 9% by 2038. We want to see the market play a pivotal role in delivering these targets and use our position to support this.

For the upcoming PR24 period (2025-30), Ofwat has placed an obligation on wholesalers to ensure the delivery of the 9% target by 2038 and has encouraged wholesalers to collaborate with retailers. Wholesalers will be incentivised to achieve these targets with outperformance payments linked to collaboration with retailers and/or third parties. However, there remains uncertainty as to what this means in practice.

### Background

The government introduced competition into the market to enable new approaches and innovation and allow competitive pressure to help deliver better outcomes for customers and the environment, including action to save water.

The market sits at a critical juncture in its evolution, with fundamental decisions within the price review process which will set the course to the end of the decade. This is particularly true when it comes to water efficiency.

The Panel is grateful to stakeholders for the progress which has been made in this area over the past 12 months; in particular the Retailer Wholesaler Group (RWG) Water Efficiency Subgroup's [Water Efficiency Roadmap](#) and the launch of the [National Metering Strategy](#) for the non-household market.

Our aim is to build on the work to date and use our voice and role within the market to move this critical issue forward for the benefit of customers and the environment. Whilst there are various activities and workstreams across the market which the Panel will be involved in, there are two areas which we intend to focus on at this time.

### Collaboration in the delivery of non-household water efficiency

Firstly, the Panel wants to see the market play a pivotal role in delivering water efficiency. The benefits of a market-led approach include a dedicated focus on customers; a better understanding of diverse non-household requirements; and the ability to take a national perspective with customers who may have sites in different regions. Retailers are in a strong position to engage with customers, and it is widely acknowledged that customer engagement – or rather the lack of it – is a critical challenge that needs to be overcome to achieve greater water efficiency.

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<sup>1</sup> <https://mosl.co.uk/document/documents/7162-strategic-panel-priorities-2023>

One of the main ways that non-household customers now engage with water and wastewater services is through switching and renegotiation. And where customers have chosen their supplier through switching or renegotiating their contract with a default supplier, this strengthens the relationship and potential for further engagement. These interactions with non-household customers offer a significant opportunity to promote water saving.

Competition is all about opening the market to new players and new ways of working. The competitive retail market has great potential to bring new and innovative approaches to the delivery of water efficiency and there are retail companies and business customers that can demonstrate what is possible – but the right incentives need to be put in place to unlock this potential. It is important to properly recognise what is hampering this potential from being realised under current conditions.

Since the opening of competition in 2017, there has not been a significant shift across the market as a whole in the delivery of water efficiency. In 2020, Ofwat and the EA wrote to water wholesalers and retailers asking for an action plan to increase the delivery of water efficiency with an aim for this to be reflected in 2024 Water Resources Management Plans (WRMPs)<sup>2</sup>. The RWG's report highlighted key issues including the need for: improved customer engagement, smart metering, a clearer regulatory framework and clearer roles and responsibilities for wholesalers and retailers.

Progress has been made on all of these fronts; and the RWG is due to publish a 'menu' of options for collaborative wholesaler-retailer delivery of water efficiency, as well as a clear methodology to record water efficiency interventions and the resulting water savings. This will enable wholesalers, retailers and customers to be fairly rewarded for reducing demand, and for industry wide learning on reporting and incentives.

Through PR24, Ofwat has decided to encourage greater non-household water efficiency through collaborative approaches between wholesalers, retailers and third parties. Ofwat drew upon an RWG-commissioned report<sup>3</sup> that recommended a predominantly wholesaler-led approach should be taken in light of low willingness to pay for water efficiency services among non-household customers. However, it was highlighted that this should be carefully designed to avoid precluding retailers from competing on water efficiency – particularly over the longer-term. The same report also noted that a more 'retailer led' approach could be shifted to in the future in the longer-term. In its five year review of the market, CCW also made clear that it wants wholesalers to commit to work with retailers to implement water efficiency services during PR24.<sup>4</sup>

We are concerned that without change, the opportunity for the market to reduce consumption significantly will be hindered. Some wholesalers are currently planning to deliver water efficiency directly, without meaningful collaboration or communication with retailers and third parties. As a result, some retailers are experiencing conflicts with their existing commercial offerings.

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<sup>2</sup> <https://www.ofwat.gov.uk/wp-content/uploads/2020/03/20200317-ltr-CEOs-from-Rachel-Fletcher-and-Harvey-Bradshaw.pdf>, <https://mosl.co.uk/groups-and-forums/industry-groups-forums/retailer-wholesaler-group/rwg-related-documents/5625-options-for-promoting-water-efficiency-in-the-non-household-market-final-report-april-2022/file>

<sup>3</sup> [PR24 final methodology Appendix 7 Performance commitments.pdf \(ofwat.gov.uk\)](#); [EI report: Options for promoting water efficiency in the NHH market](#)

<sup>4</sup> <https://www.ccw.org.uk/our-work/five-year-review-of-retail-market/>

The market faces a dilemma; transparency and engagement from wholesalers is crucial to prevent customer confusion and harm, build confidence for retailers and third parties to invest, and ensure the benefits of the market can be realised. At the same time, for wholesalers to have confidence, retailer investment, engagement and initial delivery must demonstrate that they are capable of delivering what wholesalers need to achieve their targets. Meaningful collaboration and clear communication between wholesalers, retailers and third parties has the potential to overcome this dilemma and so facilitate delivery against the targets.

There is limited time to address these issues before they start to impact delivery, innovation and desired market outcomes. Clarity for customers is essential to getting their buy in which is critical to achieving the goal of reduced consumption.

We look forward to the release of the PR24 draft determinations in July, which we hope will provide clarification on wholesaler-retailer collaboration, the performance framework and financial incentives for collaboration. We are keen to engage with the industry to ensure the final determinations in December best support the achievement of demand reduction targets, and we urge trading parties to work with us towards these outcomes.

### **The role of government**

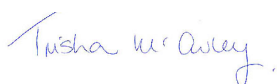
We are also looking at the role of government in water efficiency, in particular customer awareness and options for incentivising demand reduction. Whilst progress has been made across a number of areas, gaps remain which must be solved if the water scarcity challenges we face are to be met.

We believe there is a need for a national awareness campaign on water saving and are pleased to see a £75 million campaign proposed as part of Ofwat's £100 million water efficiency fund for PR24. We believe it's important this is fully backed by government even if it is to be run by an arm's length body as proposed by Ofwat.

The Panel intends to produce a report which provides clarity on what needs to happen and the actions the industry cannot deliver by itself. The Panel intends to hold dialogue with stakeholders in the coming months, and deliver a report with recommendations to government in the autumn. The Panel would like to see any recommendations form part of a new Water Bill in the next Parliament.

At the outset of deregulation, the benefits of competition were set out, with helping people to use less water at the heart of the business case. Seven years on, this remains core to the success of the market, and Defra re-emphasised this in their speech at MOSL's CEO Forum in January 2024. We are convinced that with the right actions and conditions, the industry can deliver the anticipated customer benefits of deregulation, and we call on all market participants to come together to make this a reality.

Kind regards



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