



STRATEGIC  
PANEL  
& Committees

The Strategic Panel's Response to Ofwat's  
consultation on the draft determinations for  
PR24 – August 2024

The [Strategic Panel](#) ('the Panel') welcomes the opportunity to respond to Ofwat's [consultation](#) on its draft determinations for PR24. The Panel is the most senior industry group in the business water market ('the market'), providing strategic direction and overseeing programmes of work to improve non-household customer outcomes. Our response is focused on the elements relevant to the market and business customers:

1. BR-MeX (business customer and retailer measure of experience) incentive;
2. Non-household water efficiency and demand reduction;
3. Smart metering; and
4. Bill impacts for businesses.

There are a number of positive elements in the draft determinations which have the potential to drive improved outcomes for business customers, the market and the environment. Because the market accounts for c.30% of water used in England, the Panel believes there ought to be more references to the market in the Final Determinations. The Panel believes this should be a standalone chapter.

The Panel's [draft Roadmap to a Flourishing Market](#) was recently consulted on. This set out a series of actions the Panel identified to enable the market to begin to flourish. A final version of the roadmap is due to be published in September and the Panel encourages Ofwat to ensure the final determinations help deliver the roadmap. We have called out specific actions around the delivery of water efficiency in the body of our response.

The Panel's key asks of Ofwat are as follows:

- Allowances for smart meter rollouts need to ensure more expensive large meters used by water-intensive businesses and long unread meters that may be more difficult to locate and access are included in rollout programmes
- The Panel questions whether the business demand reductions outlined are achievable without appropriate mechanisms to deliver smart metering and non-household water efficiency
- More emphasis is needed around wholesaler-retailer collaboration on non-household water efficiency to enable businesses to realise the benefits that greater collaboration could enable
- The Panel welcomes the strengthening of the weighting of the BR-MeX incentive and continuing focus is needed on ensuring it drives wholesalers' action around data, efficiency and service delivery for non-household customers
- The Panel would like clarity that bill increases are balanced fairly between household and non-household customers

We note the potential wider impacts of the draft determinations on wholesaler finances and the potential consequences for the market in the event a wholesaler has to be taken into a special administration regime by the government. We do not directly pick this up in our response as our focus is on elements of the draft determinations that could impact the outcomes for the market, business customers and the environment. In our draft roadmap we do highlight the importance of further work to ensure there is a robust regime in place in the event of either a wholesaler or retailer failure.

The Panel also notes the newly proposed customer panels announced by Defra when the draft determinations were published. We would like clarity from Ofwat and/or Defra that retailers and non-household customers

will have a role in these panels as well as household customers. This is important to ensure wholesalers are incentivised to apply an appropriate level of focus on non-household customers as they do on household customers.

The Panel's response is outlined below under five key themes. If you have any questions on our response please email [panel.secretariat@mosl.co.uk](mailto:panel.secretariat@mosl.co.uk).

## **1. Allowances for smart meter rollouts need to ensure more expensive large meters used by water-intensive businesses and long unread meters that may be more difficult to locate and access are included in rollout programmes**

- The Panel would like the final determinations to outline the split of non-household and household meters to be delivered by company to provide clarity on the implications for the market and the proposed demand reductions.
- The Panel welcomes Ofwat encouraging all water companies to deliver all the household and non-household smart meters submitted in their business plans but has significant concerns around the econometric modelling approach that has been used to set a single average unit rate for the delivery of smart meters across the country.
- The Panel's [National Metering Strategy](#) for the non-household market highlighted the need for a separate allowance and unit rate for small, medium and large smart meters to reflect that larger meters (that also have the potential to inform large reductions in water usage) are typically more expensive to install and therefore need to be treated differently if they are to be rolled out at the same rate as smaller meters. The CCW 5-year review of the market also called out the need for a targeted approach to resolve long unread and large meters.
- Without changes to the approach the Panel is concerned that more expensive and hard to find/read meters which are more likely to have been excluded from meter upgrade programmes under PR19 will again risk being missed if companies are incentivised to focus on the cheapest to install meters across their household and non-household customer base. This creates the risk of a regional patchwork with very different offerings, in particular if smart tariffs are rolled out for smart metered customers.
- Ultimately the single unit rate approach proposed by Ofwat risks impacting the outcomes for, in particular, business customers with larger or more expensive meters which may be excluded from rollout programmes. We encourage Ofwat to align with the National Metering Strategy as outlined above.
- The Panel ultimately wants to see a more joined up approach nationally to the smarter metering rollout - common standards and approach to data, customer engagement etc. The Panel is therefore encouraged by the requirement on wholesalers to develop a common data standard by December 2025 – this needs to align with the work already underway in the market.
- The Panel also encourages Ofwat to consider third party market-based delivery solutions, rather than the delivery of smart metering always defaulting to traditional in-house delivery.

## 2. The Panel welcome the ambition to reduce business demand by 7.5% by 2030, but question whether it is achievable without appropriate mechanisms to deliver smart metering and non-household water efficiency (see point 1)

- Smart meters are a key enabler to meet Defra’s target to reduce business demand by 9% by 2038 (15% by 2050) as well as the 7.5% reduction outlined in the draft determinations by 2030.
- The Panel is very supportive of the ambition outlined around business demand reduction, which features as a performance commitment in the price review framework for the first time in PR24. The Panel however, has concerns about the credibility of the target without significant changes to the funding arrangements around smart metering which are a key enabler (see more detail in point 1).
- The Panel has concerns that frontloading the target and aiming, by 2030, to achieve 7.5% out of the 9% reduction target by 2038, is not aligned to the funding outlined for water efficiency measures in the draft determinations. The Panel also does not believe the funding outlined in the draft determinations is consistent with delivering Water Resources Management Plans (WRMPs).
- As outlined in section 3, the Panel is concerned that the targets will not be achievable without proper collaboration between wholesalers and retailers around non-household water efficiency and the national, customer-centric approach that could enable.
- The Panel would welcome further clarity from Ofwat on the reason for the broad variation in targets across companies with some companies being asked to deliver a 14% reduction in business demand and others being asked to maintain. There does not appear to be a clear theme across companies and this is further complicated by some company baseline positions being changed if high levels of growth are forecast in their regions.
- The Panel has concerns that without the provision of funding to deliver the demand reductions aligned with growing water scarcity challenges, there will be a knock on need to invest in increases in supply such as new reservoirs in order to meet this extra demand. The modelling done as part of the water resources planning processes suggests this will be significantly more expensive overall.

## 3. More emphasis is needed around wholesaler-retailer collaboration on non-household water efficiency to enable businesses to realise the benefits of the national market-based approach as set out in the Panel’s draft roadmap

- The Panel believes the market has the potential to deliver a national-led approach to non-household water efficiency that can deliver greater customer benefits than approaches that focus on regional delivery by wholesalers to non-household customers alone. This was covered in the Panel’s June 2024 [open letter](#) on water efficiency.
- The Panel hoped the draft determinations would provide greater clarity around the expectations for wholesaler-retailer collaboration on non-household water efficiency. The Panel notes the draft determinations outline a requirement for wholesalers to report annually on the collaboration that has taken place to deliver water efficiency and that this would need to be acknowledged by retailers (or third parties) to have taken place. The Panel believes Ofwat needs to use the [guidance](#) published by the RWG so the final determinations set out a clear framework on how collaboration and partnership working can deliver better outcomes and the right behaviours.

- 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 well placed to engage with customers, which is acknowledged as a critical challenge that needs to be overcome to achieve greater water efficiency.
- The Panel therefore believes Ofwat needs to focus on how market-like conditions can be created to enable retailers to compete in the same way with wholesalers to deliver water efficiency measures rather than just transferring the responsibility to wholesalers under PR24.
- One of the potential solutions would be to require wholesalers to provide incentives to retailers to deliver (or encourage uptake of) services that reduce demand for water. This was included as an action in the Panel's [draft Roadmap to a Flourishing Market](#) that was recently consulted on:
  - Action W1) *'Retailers have sufficient information on wholesaler water efficiency solutions to target customers with appropriate messaging so that the customers receive communications around innovative solutions that are relevant to them.'*; and
  - Action W2) *Wholesalers provide incentives to retailers to deliver (or encourage uptake of) services that reduce demand for water and alleviate the pressure on wastewater services.*
- A final version of the roadmap is due to be published in September and the Panel encourages Ofwat to ensure the final determinations help ensure incentives are aligned between wholesalers and retailers to enable market-led approaches to water efficiency interventions. The RWG has recently published a draft menu of options of how funding and incentives could be split across wholesalers and retailers. It is available [here](#).
- The Panel notes that retailers have been provided very low levels of funding to support water efficiency since the market opened and Ofwat made a decision not to uplift this as part of the 2021-22 review of the Retail Exit Code (REC). Only a small number of retailers have managed to make water efficiency interventions stack up financially for some of their customers as a value-added service. This highlights the need for incentives that create the necessary conditions for non-household customer engagement around water efficiency to increase.

#### 4. The Panel welcome strengthening of the weighting of the BR-MeX incentive and continuing focus is needed on ensuring it drives wholesalers' action in the right areas of the market

- The Panel look forward to the introduction of BR-MeX as it has the potential to ensure wholesalers place greater focus and emphasis on delivering on the needs of non-household customers and the market. In particular around improving data accuracy, efficiency and service levels for non-household customers.
- The Panel welcomes the strengthening of the incentive to  $\pm 0.2\%$  of RoRE (return on regulated equity) which represents a step change from the current levels of performance penalties in the market through the MPF. While these may increase as part of the ongoing reform of the MPF, they are still likely to remain many times lower than Ofwat has proposed for BR-MeX. The Panel would like the split between BR-MeX and C-MeX (the household customer measure of experience) to be kept under review to ensure the incentive levels are proportionate going forward.

- It is positive that the B-Mex element is proposed to have 50% of the weighting with targets tailored to each individual company. The Panel notes that MOSL will continue the dialogue with Ofwat on the potential metrics from the reformed MPF that could form part of BR-MeX.
- It would be beneficial to have clarity on how the BR-Mex survey results will be publicised and shared with the Panel. The Panel look forward to using the findings when considering the progress being made to enable the market to begin to flourish as set out in the roadmap mentioned in section 3.

## **5. The Panel would like clarity that bill increases are balanced fairly between household and non-household customers**

- The Panel would like more clarity around the average non-household wholesale charging rising by 27% compared to an average overall bill rise for households of 21%. As part of the final determinations, we would like Ofwat to set out the apportionment of costs between households and non-households to provide transparency that there is a fair, cost reflective, balance between households and non-households.