

THE PATH TO PROSPERITY

The Strategic Panel has set out its final *Roadmap to a flourishing market*, which now includes a route towards price cap relaxation. There seems plenty of goodwill, but no guarantees.

Retail price caps could be reviewed and potentially relaxed earlier than planned if the business retail market can achieve certain conditions that would afford protection to customers while enabling competition to grow.

That's according to the Strategic Panel's final *Roadmap to a flourishing market* – a wide ranging stocktake of what needs to change to make the market work better and deliver benefits for customers of all sizes, while maintaining appropriate safeguards.

Conditions and actions

The roadmap identified 31 market conditions (see tables) which the Panel – after extensive consultation – believe need

to be met to enable the market to flourish. These fall into three categories:

- Customer engagement and choice – Customers of all sizes are clear about how the market operates, have confidence in exercising the choices that are available and know they are protected from malpractice.

- Accurate and accessible data – Customer experience and market operation are underpinned by accurate data that is accessible and that can be used to develop innovative solutions for customers.

- Processes, capability and economics – Customers embrace the opportunities to deliver water security nationally through investment in smart technology and the establishment of market and customer incentives to reduce demand.

The roadmap goes on to set out who needs to do what and by when (34 actions in total) to achieve these conditions, as summarised in the graphic.

Presenting an overview of the roadmap at the Strategic Panel's Open Forum in London last month, independent Panel member Rick Hill called the publication "the end of the beginning"; a flourishing market is yet to be delivered, he said, but at least we now have an idea where we're heading. "It's complicated," he commented, and the roadmap will help find a way through.

REC steps

Regarding the retail price caps, the Panel suggested that the early establishment of the customer engagement and protection conditions, delivered by the actions circled in red in the graphic, would help support a decision to review the Retail Exit Code (REC). According to the roadmap: "By advocating for a gradual revision of the REC, the roadmap aims to ensure that customer protections remain a priority, minimising risks as the market evolves. It also emphasises enhancing customer service through improved data accuracy, smart metering, and streamlined processes to boost satisfaction."

Hill explained that the REC had attracted the most feedback (19 comments from 20 responses) when the draft plan was consulted on, with retailers in particular concerned about the financial impact of the price caps and the constraints they place on competition. Consequently, the final map had identified actions that might make an earlier review possible, though "we can't promise that, that's a matter for the regulator," Hill pointed out.

The question of whether an earlier review of the price cap is achievable elicited mixed opinion from a panel of Strategic Panel members. Representing wholesalers, Andrew Beaver said the focus should be on "demonstrating that we don't need those price and service protections for

group one customers. As soon as we can do that, I'm fairly certain Ofwat will get rid of the price protections." Ofwat's Shaun Kent agreed that "we need to see the right market circumstances, the right conditions pertaining for customers", adding that price protections take different forms and the type of protection in place might be able to be changed as well.

For retailers, James Cleave noted Ofwat is supportive of the roadmap and presumably therefore of the possibility of bringing the REC review forward. But "that doesn't mean it's a commitment; that if those things are all delivered, it will definitely happen, and the REC will definitely be relaxed."

Participants from the floor took a harder line on this point. One said: "While you're putting in conditions what you'd like to see, actually there needs to be some faith that we're actually going to get to that point. And I think that's the thing that's missing. There's no ambition to say actually we would like to get to a point that the REC is no longer required...there isn't that vision."

Another pointed out that the Panel had set out what might encourage Ofwat to revisit the REC, but that it would have been more compelling for Ofwat to set out the criteria required to make that happen, and to oblige trading parties to deliver the necessary actions under the code. "The Retail Exit Code that we have today just cannot be appropriate for a market that's going to be ten years in [by 2027]," he argued.

Doable delivery?

The Panel acknowledged the roadmap requires a lot of people to do a lot of things, which in turn necessitates willingness and choreography. Panel chair Trisha McAuley highlighted that there are 22 actions earmarked for the next two years alone, with many "not within the Panel's gift to deliver".

Hill was optimistic for collaboration, sharing that of the 20 respondents to the draft, all were supportive (rated green) except Business Stream, Water Plus and the UK Water Retailer Council, which had some reservations (rated amber) and Castle Water which was critical (red). He hoped the roadmap would prove "a document around which we can coalesce".

Discussions at the Open Forum suggested that, for the most part, he might be right. Some retailers and wholesalers considered the actions allocated to them perfectly achievable; one retailer challenged

that the roadmap "maybe not as ambitious as the panel thinks" on that basis.

Others, however, shared a few hesitations, including that PR24 is a key dependency (for smart meter delivery and associated actions); and that wholesalers will have AMP8 delivery programmes that are double the size of what they are used to, posing challenges on time and resources. Beaver said: "I think for wholesalers, one of the big challenges will be trying to get time and effort into areas which may have less focus in organisations."

It was also highlighted that there are a lot of actions attributed to Ofwat and Defra and, to a lesser degree, MOSL. MOSL chief executive Sarah McMath offered the reassurance that actions on her organisation are aligned with, and will be factored into, its business plan and strategy.

Michael Charlton, head of water industry strategy at Defra, shared that the roadmap could usefully feed in to the government's wider strategic review of the water sector, providing helpful information on the non-household market. Discussions suggested that finding Parliamentary time for any required legislative change would likely be the most challenging aspect for Defra, although legislation to deliver the outcomes of the wider review will be coming down the line and may prove a convenient vehicle.

For the Panel itself, delivery of the roadmap will now become its prime focus, replacing its existing *Priorities* document. Its work will include progress reporting and revising the roadmap in line with developments.

CUSTOMER ENGAGEMENT AND CHOICE – 16 CONDITIONS

Market condition
Customers and new entrants are aware of the market
Plain English guidance on market structure informs decisions to join the market
Smaller customers re-negotiate their contracts or switch suppliers to gain better value
Provider behaviours are guided by a fairness framework not just market forces
Potential new entrants have access to information on the state of the market
Obligations on Third Party Intermediaries to protect customers from mis-practice
Customers know they are protected from retailer/wholesaler failure
Customers trust the switching process
Customers understand the regulatory protections in the market
Customers can easily identify their retailer and wholesaler
Information must be provided on bills and in a way that customers understand
Customers can take an independent interest in their meter reads
Customers know when their contract ends and are free to switch or renegotiate
Third Party Intermediaries provide tools that inform customer decisions
A dedicated website provides customer guidance on the market
Wholesaler tariff structures are harmonised across regions

PROCESSES, CAPABILITY AND ECONOMICS - 7 CONDITIONS

Market condition
Retailers can offer water efficiency solutions to any customer
Changes in consumption can be derived and compared from reliable data
The market framework supports water efficiency services by retailers
Smart settlement and tariffs provide clear price signals to customers
Sandboxing allows ringfenced innovation that could support wider change
Customers are incentivised via retailers to reduce demand
Smart technology and settlement enable the roll out of smart tariffs

ACCURATE AND ACCESSIBLE DATA – 8 CONDITIONS

Market condition
Innovation in services is supported by accurate data
Data on customers is accurate
Accurate data supports market collaboration
There is clarity where correct customer data is held and who has access
Clear obligations support accurate data which can be reviewed and audited
Clear market eligibility rules are applied consistently across regions
Customer data is available to all authorised stakeholders
Trading party processes and behaviours support effective market functioning

OVERVIEW OF ACTIONS SPECIFIED IN THE ROADMAP

