

THE WATER REPORT

POLICY | REGULATION | COMPETITION

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SSWAN song

As he steps down from Wessex Water after 36 years as CEO, Colin Skellett says it is urgent we reset regulation to secure Sustainable Solutions for Water and Nature (SSWAN).

COMPETITION WATCH

- | Wholesaler and retailer views on the *National metering strategy* for the non-household market.
- | Wave looks to marry water efficiency and Legionella risk management.
- | Global standards needed for business water stewardship.

INSIDE

WILL OFWAT BREAK THE BILL CYCLE? | FRONTIER SHIFT | UKWIR'S STEVE KAYE | ICG REVIEW | THAMES LATEST AND DD PROSPECTS

WICS appoints interim CEO from within

The Water Industry Commission for Scotland's (WICS) director of strategy and governance David Satti has been appointed interim chief executive and interim accountable officer. He will hold the post for up to 12 months.

During this time, Satti will commence work on the first phase of the Strategic Review of Charges 2022-23 and implement key responses

to the Audit Scotland report which criticised WICS' on governance and financial management grounds.

Shortly after Satti's appointment was announced, the Scottish Government's Public Audit Committee held a session to grill ministers and WICS' officials on the 2022/23 audit of WICS and the Audit Scotland findings.

Roy Brannen, director-general net zero, said the Scottish Government fully accepted Audit Scotland's findings, had strengthened its oversight of the regulator and was working with WICS on implementing rec-

ommendations. He said WICS had driven efficiency in water service provision over the years and now "the primary focus is that WICS regains stakeholder and the public's trust as an economic regulator."

Chair of the WICS board, Donald MacRae, provided an overview of the changes made since the report was published and former chief executive Alan Sutherland left in December 2023, including "a change of culture and rapid refocus on value for money". He said of the 27 actions raised by Audit Scotland's findings, 24 were complete.

Developer services exit from price controls

Ofwat has modified water company licences, effective from 12 June, to remove certain developer services from the upcoming price control, in line with its PR24 methodology and to boost competition in the developer services market.

Network reinforcement work remains within the water and wastewater network plus controls as this is not contested. But some site specific services where incumbents compete with new appointments and variations and self-lay providers – such as new connections – have been removed so revenue from them will be excluded from the controls.

There is some variation between England and Wales.

Firms join forces to represent the UK

Eight UK water companies have grouped together to help to represent the UK's water industry at a UK pavilion at the International Water Association World Water Congress & Exhibition in Toronto, Canada on 11-15 August.

Anglian Water, Northumbrian Water, Scottish Water, Severn Trent, South West Water, United Utilities, Wessex Water and Yorkshire Water will be joined by British Water and sponsors including Atkins Realis, Arup, Capgemini, Morrison Construction, Ofwat Innovation Fund, RSE, Scottish Government and WRc. They will be "highlighting issues at the forefront of the water sector's agendas such as climate change adaptation, nature recovery and enabling resilient futures".

The water companies will be taking part in speeches, panel discussions, case study demos and "hosting multiple networking events and receptions to showcase UK innovation, providing a stage and opportunity to learn from others."

South West Water unveils new alliance partners...

South West Water has unveiled a new alliance which includes six engineering firms "to bring the water company's record investment programme to life".

The partnership – dubbed Amplify – includes BAM Nuttall, Clancy, Mott MacDonald Bentley, Tilbury Douglas, MWH Treatment and Network Plus Envolve as its main construction partners for South West Water's infrastructure plan for 2025-2030.

They are joined by consultancy organisations: Stantec, Long O' Don-

nell, and Turner & Townsend who will provide project management; Aecom, ChandlersKBS and Turner & Townsend to "ensure best value-for-money"; and Aecom, Arcadis, Pell Frischmann, Stantec and WSP to "produce innovative designs".

South West Water's chief executive, Susan Davy, said: "The alliance will be further strengthened next month when ten local companies are appointed."

...as Anglian sticks with @One Alliance

Anglian Water has retained all AMP7 @One Alliance partners for AMP8, and has added Bin-nies which has rejoined.

The other seven partners are: Balfour Beatty, Barhale, Mott MacDonald Bentley (MMB), MWH Treatment, Skanska and SWECO.

The @One Alliance has delivered £1.3bn of work – half of Anglian Water's overall enhancement portfolio, so far in AMP7. It is set to deliver a record £2.6bn of the water company's overall £9bn AMP8 plan.

The alliance has been heralded as truly integrated and collaborative. It is focused on health, safety and wellbeing, along with embedding performance incentives for efficiency, carbon, innovation, equality diversity and inclusion, and culture.

Regulation not fit for purpose as costs soar, think tank finds

A new Regulatory Audit Office should be created to provide independent scrutiny of policy proposals and regulatory reform, and monitoring should be centralised under a senior government minister, with the same oversight of regulation that the chancellor has of fiscal policy.

Those were among proposals published in a report, *The future of regulation*, from centre-right think tank the Centre for Policy Studies (CPS).

The study, which looked across all regulated sectors, slammed the regulatory system as "not fit for purpose". It conducted a line by line analysis of official impact assessments produced to accompany 3,528 pieces of legislation,

and found the costs to business increased by £6bn a year between 2010 and 2019.

It further argued this was likely to be "a colossal underestimate" given "regulatory impact assessments are generally produced by junior staff to justify decisions already taken. The figures they contain are often alarmingly woolly, or riddled with errors."

Defra was praised as the only department to have produced a full audit of the regulations it has imposed.

The CPS welcomed the recently published Better Regulation Framework, but alongside a Regulatory Audit Office and responsible minister, called for:

■ The Government should establish a new regulatory budget to replace the one in, one/two/three out rules and the Business Impact Target.

■ It should also carry out a comprehensive audit of the whole body of UK regulation. All regulation and associated analysis should be brought together in a sophisticated, machine-readable open platform.

■ Any decision to regulate should be properly scrutinised and externally audited as part of the policymaking process, not as an afterthought.

■ All regulations should be evaluated against clear success criteria after implementation, with their impact being re-examined five and ten years after being passed.

SKIN IN THE GAME

In March, the Strategic Panel published its *National metering strategy for the non-household market*. As we reported last issue, the plan seeks to bring consistency across the country as wholesalers embark on, or continue, smart meter rollouts in AMP8 and AMP9, while including recommendations for improving how companies' traditional metering stock is managed.

The strategy aims to maximise rollout speed, efficiency and transparency by recommending a framework and identifying opportunities for standardisation among wholesalers, as well as addressing how wholesalers and retailers should work together, share data and provide a good level of service to customers.

The strategy was the product of extensive collaboration and engagement between MOSL, wholesalers, retailers and other stakeholders represented on the Strategic Panel and beyond. A little over a month on, one of the retailer and wholesaler representatives on the Panel that produced the strategy reflect on it and how it has gone down with the market.

Lucy Darch is chief executive of Wave. Until her term ended recently, she represented retailers on the Panel and played a very active role in the metering subset. Chris Offer recently joined Southern Water from Yorkshire Water as strategy and regulation director. He now represents wholesalers on the Panel.

Common interest

Talking to the two, it soon becomes clear that wholesalers and retailers come at the strategy from different places – they have different drivers, needs and priorities – but they have a common interest in a successful smart meter deployment, both for their own and each other's benefit.

Wholesalers, firstly, have balancing supply and demand and Defra's new consumption reduction targets front of mind. They need the rollout to be efficient and adequately funded through the upcoming price review. The nature of the non-household market makes it ripe for water efficiency interventions: businesses use 30% of the country's water, half of which is consumed by just 1% of customers.

From a Southern Water perspective, Offer says: "Metering strategy and water efficiency are absolutely at the core of the challenges that Southern Water has." While precise PR24 incentives are yet to be determined, finding more leaks and enabling customers to manage their usage using more granular information will be "critically important". He adds: "And from a wholesaler perspective, if this can help support the realisation of the benefits that were always intended when the market was initially opened, I think that's a great thing."

Retailers, on the other hand, want to offer new and better services to their customers. They need smart metering arrangements to be as consistent as possible between wholesaler regions, and to have clarity on what is happening when – not least to be able to communicate this to their customers. Darch comments:

Retailers and wholesalers have different, but aligned, interests in making the smart meter rollout a success, as their representatives on the Strategic Panel explain.

"Ultimately, the retailer's job is to support the customer's needs. Customers will want to save money and be efficient with their spend in this area. Our job is to help them do that. At the moment... it is quite hard to manage a resource that you can't track. So once you're able to track your consumption, then I'd expect customers to get more engaged."

Engagement will increase as the price of water rises, she adds. So retailers' interests in helping customers cut consumption – particularly those in water scarce or costly to supply areas, or those who can be innovative with their water use by shifting the timing of their consumption or using non-potable sources – are aligned with wholesalers' objective to manage demand.

For both wholesalers and retailers, smart metering is a means to an end, and the onus is on them to use the data returned intelligently to secure their objectives.

Voluntary alignment

The national strategy does not have any statutory basis; in time, its detail is likely to be delivered through guidance, though code changes are a back stop if needed.



Chris Offer

We've often talked about having a twin-track approach to water resources. That's never felt more true.

Darch says this is in tune with Ofwat's signalling that "we come up with our own solutions" rather than wait to be told what to do. She reflects: "Increasingly, as the market moves forwards, I think what we'll probably see is more innovation and collaboration [which are] less reliant on codes and licence conditions, but delivering really good results for customers."

She is optimistic that most trading parties will embrace the consistency the metering strategy offers. Each wholesaler doing its own thing on bilateral transactions in the NHH market proved inefficient and had to be retrospectively addressed. "The spirit of this strategy is really about, if we all agree that this strategy is a 'blueprint' and agree to use it as we go forward, there's a better chance that we don't waste money...and that we know what to expect from each other."

Not everyone will follow the approach; as a comparison, not all wholesalers adopt the Retailer Wholesaler Group's good practice guidance. But "if you deviate from that, it might be that you're an outlier from where the rest of the market goes."

Growing enthusiasm

The strategy has been warmly welcomed by the market; the concept largely unchallenged in its high level positions. Offer expects more divergence of views once specifics come into play, but shares: "I don't think anybody wanted to jump into solution mode on some of this stuff straight out the gate." For now, he reflects: "From what I've seen and heard from others, I think we've pitched it about right. So I'm really feeling quite optimistic about it."

Darch adds that the market has come a very long way since wholesalers first published their draft Water Resource Management Plans (WRMPs). Many made little or no reference to smart metering for business customers in the first cut. "Wholesalers' smart ambitions were leaning towards households. At that time, Defra had a per capita consumption target, but they didn't have a non-household target...so I think it's really pleasing that we've now got a target from Defra for 9% for non-household reduction. We've seen a huge shift in the ambition around smart



Lucy Darch

You'd imagine the wholesalers will be very tempted to do their rollout street by street, it makes absolute sense doing it geographically. But retailers might want to pull out certain large consumers

through the updated WRMPs. All these things feel like they're galvanising support in the right direction for something which wholesalers and retailers all believe is the right thing."

So are wholesalers universally backing smart metering now? Signalling from Defra, Ofwat, the Environment Agency, MOSL and the Strategic Panel has certainly encouraged them to do so. Offer says: "I think, absolutely, there's been a shift... We've often talked about having a twin-track approach to water resources. That's never felt more true."

But clearly for some companies, particularly those with serious water resource challenges, getting smart metering right is more urgent. Offer knows this from his move from Yorkshire – where water resource planning was a medium to long term matter and to some extent about using surplus water effectively – to Southern Water, which has "gone through a journey of turning over every stone and considering every option available to address the underlying water resources challenge... The requirements on Southern essentially mean that it's going to have to offset around a third of its daily resource... to support restoring sustainable abstraction. That is massive. And so every option is absolutely on the table."

Funding

The will for smart metering seems to be there from the market, supported by Ofwat's guidance that smart metering should be the norm going forward and its insistence that companies' metering plans should be "ambitious". Ofwat also sits on the Strategic Panel and was present during discussions on the metering strategy and need for investment. As an affiliate member, Ofwat didn't have a vote on the strategy and isn't considered to have formally endorsed it, however.

The delivery of smart metering now depends on Ofwat allowing adequate investment at PR24 to fund the ambition. Offer shares some thoughts: "I have a huge amount of sympathy for colleagues at Ofwat at the moment, because I think they're in a terribly difficult position... This is the first price review where there's generally been an acceptance and an understanding of the need for [significantly] increased investment. And, of course, how that flows through to bills will be massively important."

He is optimistic that smart metering funding will make the cut, although says we should not "run to the hills" if the draft determination (DD) next month doesn't fully meet expectations, as Ofwat has signalled this will be "more of a *draft* DD than we've ever seen before".

He continues: "I think that they will absolutely appreciate that this is a really important strategy; that it's really important that we do invest... The trickier bit, I think, is... it's just how they go about satisfying themselves that they're setting efficient, stretching but achievable benchmark costs." Especially as there isn't a huge amount of mature benchmarking data on smart costs.

Offer argues: "What makes this strategy so important is specifically calling out the hard to reach and unmeasurable meters [the strategy insists all meters should be part of the rollout, including large (complex and more expensive) ones and those that are long unread or hard to reach]. The reality is, when you've got massive cost pressures, it's exactly those sorts of difficult, challenging, hard to reach meters that get squeezed, and those are the ones that end up not getting done. So the concern would be that, if that's not taken account of in terms of the efficient level of benchmarking, that they'll get squeezed which, again, I don't think any of us want to happen."

The rollout

While the Panel has gone to great lengths to encourage consistency as smart meters are rolled out, company business plans indicate some will go faster than others, with a near 50:50 split between a one and two-AMP rollout (on a supply point basis).

Meanwhile, within individual wholesaler areas, there is little detail as yet on how rollouts will be organised – for instance, street-by-street, where water resources are most stretched, or by customer type – for instance, to pick out larger users first, where the potential for water savings would be greater. Nor do we know the rollout profile for companies planning a two-AMP rollout. Either way, customers are likely to see something of a patchwork for at least a decade.

Offer: "That's why it's so important that we work hand-in-glove with the retailer, because they're having to deal with the fact that wholesalers are going to have different approaches. So the strategy calls that out in terms of saying that, therefore we've got to have visibility of companies' rollout plans."

He adds: "Let's be honest, that's why it [the strategy] exists. It's recognising that we're not all starting from the same place. We've all got different underlying water resource management drivers. It is a complex set of issues, which we're obviously trying to bring as much consistency to as we can. But it would be naive to think that we're going to have one overall grand plan that's going to allow everything to work perfectly in sync, because that's not going to happen."

Darch makes the point that the strategy is a metering strategy rather than solely a smart metering strategy, and makes provision for meters that are awaiting a smart upgrade to be managed too. This includes directing wholesalers to replace old meters, fix broken meters and endeavour to read the long unread. "It is an area of risk. The responsibility for identifying broken meters is increasingly falling on the retailers," she comments. A Wave-led Market Improvement Fund project has also shone a light on the fact that old meters are a major cause of zero reads.

She suggests wholesalers should consider priority cases as they map out their rollouts. "There's some surprising statistics," she shares. "We've audited our top 100 consumers, and only about half of them have AMR [automatic meter reading] capability. You'd expect that to be higher with the top 100... You'd imagine the wholesalers will be very tempted to do their rollout street by street, it makes absolute sense doing it geographically. But retailers might want to pull out certain large consumers, and either talk to the consumer and say 'look, this is where your planned rollout is, it's not in the next five years, it's in the subsequent five year period, so perhaps you want to do some AMR in the meantime?'"

"Or if it is planned for the next AMP, then it might be a case of liaising with the wholesaler and saying, 'Can we pick some of these big ones and get these done? They might not be [in line] with your regional rollout, but there'll be a big 'bang for your buck' if you get them done.'"

She adds: "Process wise, it's important to highlight that the retailer has quite a bit of additional work to do here, in terms of hyper-care for the customer around the meter exchange, to make sure that the first bill is correct and their old meter gets closed down with the right read."

Reading responsibility

Responsibility for putting smart reads into the market will sit with wholesalers. They will need not only to capture reads but also monitor meter performance and maintain the new asset

base. At present, retailers are responsible for all reads, and, as Darch notes above, take the lead on identifying broken meters. Is she confident wholesalers will make all the required effort; that retailers won't be left explaining to their customers why there is no read when they are no longer on the frontline of identifying problems and pursuing alternatives to get meters read if need be?

"I would be confident," she replies, "since quite a high proportion of the bill is wholesale costs. So we're all in this together in terms of recouping the costs of the water to the wholesaler, and also the retail costs."

She observes that another issue for retailers is that, as dumb meter numbers diminish over time, reading costs will go up. "As a retailer, we're expecting to still be reading dumb meters for the next ten years or so, probably 15," she shares. Some meter readers are innovating in response to there being fewer dumb meters (water and energy) to read. "Morrison's, for example, are cross-skilling their meter readers now to ensure that they can read water, gas and electricity meters. So that's great. It means their resource can be deployed much more effectively." But beyond what can be achieved through such innovations, future retailer cost allowances for reading meters will need to reflect higher costs.

Opportunity

There is still a lot to be worked out. As well as the details of the rollout and responsibilities around reading, the strategy provides high level principles on many areas that will, over time, need to be fleshed out – for instance, how data will be stored and shared, governance arrangements, data analysis options, common definitions, customer communications plans, and even areas where there are knock-on consequences of the smart transition, such as whether leakage allowances should continue.

Darch shares that Wave is already experimenting with data, for example by looking back at accounts where a leakage allowance has been applied to see if there were tell-tale signs. It has also invested in a data warehouse platform, ready for the huge increase in data. She picks up a couple of related points.

First: "What we need to talk about as an industry is MOSL's role in terms of what data does MOSL hold? How much analysis does MOSL do versus how much do we expect the retailers to do to support the customers? There's a balance there – MOSL needs to do something, but we do also need to leave a clear platform for retailers to innovate and provide different levels of service to customers... We need to make sure we get that right and make sure that we don't develop something at MOSL which actually maybe stifles competition because it's something that the retailers should be doing."

Second, the sheer size of the opportunity smart metering offers, even at the most basic level. "If we have an accurate daily read for every business customer, one of the easy things that we'll be able to do is to spot leaks and continuous flow much quicker. And that will be a huge step forward for the industry." That's both from a customer service point of view and a water saving point of view – ticking both retailer and wholesaler boxes.

She concludes: "We've had customers... who've had their consents removed... who have just assumed that the water therefore will come through the tap [but] have been told by the wholesaler, 'we can't provide you with that.' That's uncharted waters for us... This [smart metering] is so key to the next chapter, in being able to support that scarcity agenda and make sure that we've got enough for the future." **WWR**