

23/10/2025

## Strategic Panel Letter to Defra on Water Industry Act

Dear Shola,

The [Strategic Panel](#) (the Panel) is the most senior market governance group and is responsible for leading the evolution of the Business Retail Market (BRM) and shaping its strategic direction to bring about the best customer outcomes.

The Panel welcomes the opportunity to provide advice to Defra on potential changes to the Water Industry Act (the Act) ahead of Government's publication of the white paper by the end of the year. We understand that the Act is one of many legislative levers that contributes to the functioning, oversight and accountability of the water industry. Any amendments to the Act should align with and support broader policy and legislative priorities affecting the sector, particularly in light of the Independent Commission's final report.

In relation to the non-household market, the Panel has identified key areas for prioritisation in amending the Act (found at **Table 1**), as well as issues that the Act should enable or facilitate as they are addressed through ongoing policy and system changes. We believe that amending the Act now, largely by way of enabling provisions, is an opportunity that we cannot miss to lead and set the policy agenda in key areas such as water scarcity and water efficiency – enabling the Regulator and the broader sector to set priorities and targets to meet efficiency goals.

### **Water Efficiency as a Key Water Industry Act Priority**

Notably, we would like to see Government take forward recommendations outlined in the recent report titled *Creating Incentives for Business Users to Reduce their Water Consumption* (a confidential copy is enclosed with this letter). The Panel supported and funded the Retailer Wholesaler Group to commission Baringa to develop the report which provides recommendations on how to incentivise non-household customers to reduce demand – recognising this as a key issue for enabling the industry to meet water reduction targets. We recognise that some of the recommendations in the report will take time to implement, and we believe the Act can help create the conditions necessary to support this progress.

Key water efficiency priorities identified by the Panel and reflected in the report include *demand reduction targets*, *reducing continuous flow and water waste*, *enabling provision with regard to non-potable sources*, and *creation of a water efficiency levy and fund*. These priority areas can be supported through legislative reform by introducing enabling provisions and/or by removing existing legal barriers. Further details are provided below on each of these priorities, including how they relate to the Act:

#### Demand reduction targets

The Baringa report outlines the important role that demand reduction targets play in supporting greater water efficiency. The Panel recognises that implementing demand reduction targets must happen in conjunction with other measures – requiring significant collaboration between Government, the Regulator, trading parties and customers. While Government has established

statutory demand reduction targets, including for the non-household market, most business customers remain unaware of these targets. There is an opportunity to draw on learnings from the energy industry where targets have been key to delivering carbon reduction and supporting the growth in renewables.

As a first step, customers must be made aware of targets by way of national water efficiency customer awareness campaigning. This is government policy and, as such, a central awareness raising campaign needs to be led and driven by Government, supported by the Regulator and trading parties through message development and engagement activities. Following the campaign, customers may also be required to report on their demand reduction activities, either on a voluntary or mandatory basis.

The introduction of demand reduction targets is complex and relies on customer awareness to ensure any measures taken are fair and transparent. While we don't see the Act being prescriptive in outlining the details of these targets, it can help to ensure the Regulator, Government and trading parties are empowered to make necessary changes to support the adoption of water efficiency measures – with any changes focused on balancing the needs of the customer and achieving agreed water efficiency goals.

#### Continuous flow and water waste

The Baringa report states that addressing avoidable consumption linked to leaks, faulty processes, or poor control is a key water efficiency enabler. The Panel has also heard from industry stakeholders that addressing continuous flow is a critical step in reducing customer bills and conserving water. Technologies such as smart metering will help to identify areas of continuous flow, and accurate smart meter data will better enable water companies to intervene to resolve issues.

This is an area where the Act does not need to prescribe specific interventions, such as smart metering. However, it should not act as a barrier to future measures that support the identification and resolution of continuous flow issues, particularly those that rely on accurate and timely data.

#### Enabling provisions with regard to non-potable sources

The Baringa report recommends reducing demand on potable supplies by enabling greywater, rainwater, or recycled water for low-grade use. We understand that enabling non-potable water solutions, especially for large water users such as data centres, will take time to rollout – and will require commitment from Government and the Regulator to support use cases and adoption.

There is currently a lack of specific UK legislation on use of non-potable water sources, but we see this policy intervention as an increasingly important step to reducing unnecessary water use and fostering greater water efficiency, especially in water scarce areas. The current Act could serve to enable greater exploration of these interventions (while retaining necessary customer protections).

#### Water efficiency levy and fund

The Baringa report recommends introducing a usage-based surcharge on high-volume users to fund targeted water efficiency investment. While the details of a water efficiency levy can be incorporated, if required, into future primary legislation, the current Act is an important opportunity now to lay the groundwork for any future legislative and policy changes – enabling trading parties to help shape the scope and function of levies.

Going forward, it will be important to recognize that price signals may penalise large users who are already heavily invested in water efficiency, , so any new pricing approach would have to be supported by complementary mechanisms that enable water efficiency. Nevertheless, setting the enabling provisions in the legislation now is an important opportunity to create the framework for a water efficiency levy that works for customers and society in the future.

### **Additional Water Industry Act Priorities**

The Panel has also identified a number of specific areas where changes to the Act can improve the functioning and efficiency of the business retail market (BRM). These include *interim supply protection, New Appointments and Variations (NAVs) market entry requirements, temporary building supply, approval of code changes, and metering right of access*. Further information on each of these areas is available at **Table 1**.

A number of further areas for consideration are also highlighted in **Table 2**. The Panel believes these matters are important to resolve going forward and the Act must not be a barrier to their resolution. The Panel suggests that Defra give consideration of the extent to which the Act provides for these areas going forward and/or contains provisions that enable them to be dealt with in subsequent legislation, licenses or codes.

The Panel looks forward to working closely with Government to provide further detail and guidance on the changes we wish to see to the Act, as well as on how we envisage the Act supporting broader future policy solutions.



Trisha McAuley  
Independent Chair, Strategic Panel  
23/10/2025

**Table 1: Strategic Panel Key Legislative Priorities**

Priority Area	Rationale & solution	Growth Area	Customer Impact	Potential Solution
<b>Interim supply protection</b>	In the event of a retailer failure, there remains a risk that no other retailer will step forward to take on the customers of the failed retailer. Currently, Ofwat has no power to enforce such right even where a retailer previously opted in or is the notional supplier of last resort in a region. This change would improve market resilience.	Improved market resilience	Help mitigate risk of stranded customers	Enable the Regulator to enforce allocation of customers to retailers in the event of a retailer failure creating an Interim Supply Allocation event.
<b>NAV market entry requirements</b>	An unintended consequence of the retail exit regulations is that NAVs that enter the NAV market not wishing to provide retail services to non-household customers, must enter and then exit the Business Retail Market. The Independent Commission final report references the need to amend section 8 of the Act which requires Ofwat to undertake a full statutory consultation on all NAV applications.	Promote greater market efficiency	More streamlined, efficient service with reduced barriers to entry	Remove the requirement for NAVs to enter market as both wholesale and retail if they want to exit retail right away. This change would improve market efficiency.
<b>Temporary building supply</b>	Temporary building supplies are transient supplies that exist for a limited period of time while a site is being developed. They do not fall within the definition of household premises in the Water Industry Act 1991 (the Act) where they are defined as premises in which, or in any part of which, a person has his home. As such, existing legislation deems that temporary building supplies are eligible for the business retail market. However, in most cases the TBS is the same supply for the final home on the site.	Improved market efficiency	Reduces the potential for inefficiency, inaccurate data and billing issues and reduces potential delays in de-registering premises (household customers) that are no longer eligible for the market.	Change the definition of temporary building supplies to have sites entered into the market at the point a permanent connection is made. This may improve market efficiency. However, we appreciate there are diverging views on this point in the market, and it may require further consultation.
<b>Approval of code changes</b>	The Act requires that the Regulator make the final decision on the approval of all market code changes. This differs from other utilities (e.g. gas and power) where low materiality changes to market codes can be determined by market code panels, rather than the regulator. The current requirements mean the regulator must focus on low materiality change as well as more material changes, reducing the efficiency of market improvements.	Improved market efficiency	Low materiality changes that improve outcomes for customers would be more efficient to progress and the Regulator's attention and resource would be focused on the most material changes for customers.	Allow the Regulator to delegate final approval of code changes in certain conditions, in order to make the code change process more efficient and timely. This change would enhance market efficiency.
<b>Metering right of access</b>	Currently, where a water meter is located inside a premises, retailers do not have a right of access unless specifically authorised by the wholesaler even though they are responsible for entering meter reads.	Improved market efficiency	More streamlined, efficient and timely service to ensure retailers can meet their obligations around meter reading Water use reduction	Afford appropriate rights of access for retailers in order to read meters.

**Table 2: Technical areas for consideration**

<b>Charging for treated effluent</b>	Consider root causes on restrictions on water companies being able to charge for treated effluent as an alternative to potable water supplies – for instance, could this be taken outside of Revenue Correction Mechanism which governs total revenues water companies can charge under the price reviews. Such a change could stimulate non-potable supplies as a way of reducing potable water demand.
<b>Grey water use</b>	Not all NHH water usage requires water of potable standards. There are many different sources of non-potable supply that could be considered. These have been documented by National Framework for Water Resources, Non-Potable Reuse Working Group.
<b>Supply constraints</b>	<p>Establishing appropriate water efficiency building regulations and standards for new developments and products is important in supporting sustainable growth.</p> <p>Currently wholesalers are legally obliged to allow all new domestic water connections (i.e. all households and non-households where the use is domestic), however they can refuse NHH connections where the water is for non-domestic purposes.</p> <p>Some wholesalers have already implemented moratoriums in certain areas for these types of connections while others have implemented volume restrictions. Wholesalers are currently considering aligning and treating applications for NHH for Non-Domestic connection over a certain volume in a different way – i.e. more detailed discussion on alternative sources or services.</p>
<b>Trade effluent consents</b>	Consents are registered to the occupier of the property. This may create inefficiency for customers / businesses working across multiple sites.