



## An overview of the competitive retail market

This information note explains how competition in the retail market for water and sewerage services in Scotland has developed. It also outlines the licensing framework that is now in place.



## Background

The catalyst for non-household retail competition in the Scottish water industry was the Water Services etc. (Scotland) Act 2005. This Act gave the Water Industry Commission for Scotland (the Commission) responsibility for overseeing the introduction of retail competition in this sector. The licensing framework now in operation was developed over a three-year period from that point, and the market opened for business on 1 April 2008.

In 2005, as a first step towards competition, the Commission established a forum known as the Licensing Framework Implementation Group (LFIG). This brought together those with a commercial interest in non-household retail competition. The group's remit was to develop the codes and agreements that would form the framework within which the market would operate. The group comprised representatives from UK utility companies, including the incumbent supplier, Scottish Water.

A prerequisite for establishing the market was to create a new separate retail business as a subsidiary of Scottish Water. This new company, Business Stream, was required to apply for a licence to supply water and sewerage like any other licensed provider<sup>1</sup>. In order to achieve legal separation of Business Stream from Scottish Water, a full accounting and physical separation programme took place in the run-up to market opening, under the supervision of the Commission. IT systems, data, staff and assets were gradually transferred across to the new company. The separation was carried out in a transparent manner, with wide stakeholder consultation and publication of all key documents.

The purpose of this exercise was to encourage other participants in the market by demonstrating that a level playing field existed (ie that Business Stream did not hold an unfair advantage). Business Stream is now a licensed provider and competes, along with other providers, for the business of around 130,000 non-household customers.

In November 2007 the Commission established the Central Market Agency (CMA). The CMA is an independent organisation owned and governed by market participants. Its role is to:

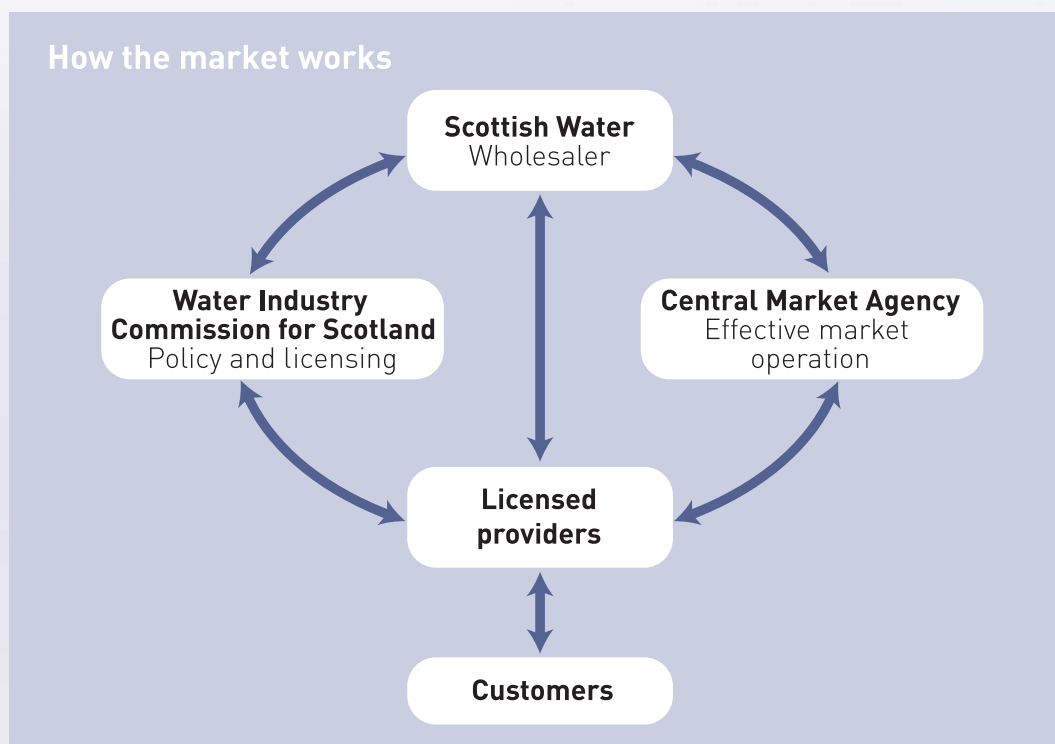
- act as a repository for market data relating to switching and wholesale charging;
- oversee the switching process;

<sup>1</sup> Business Stream was granted a water supply licence and a sewerage supply licence by the Commission on 11 January 2008.



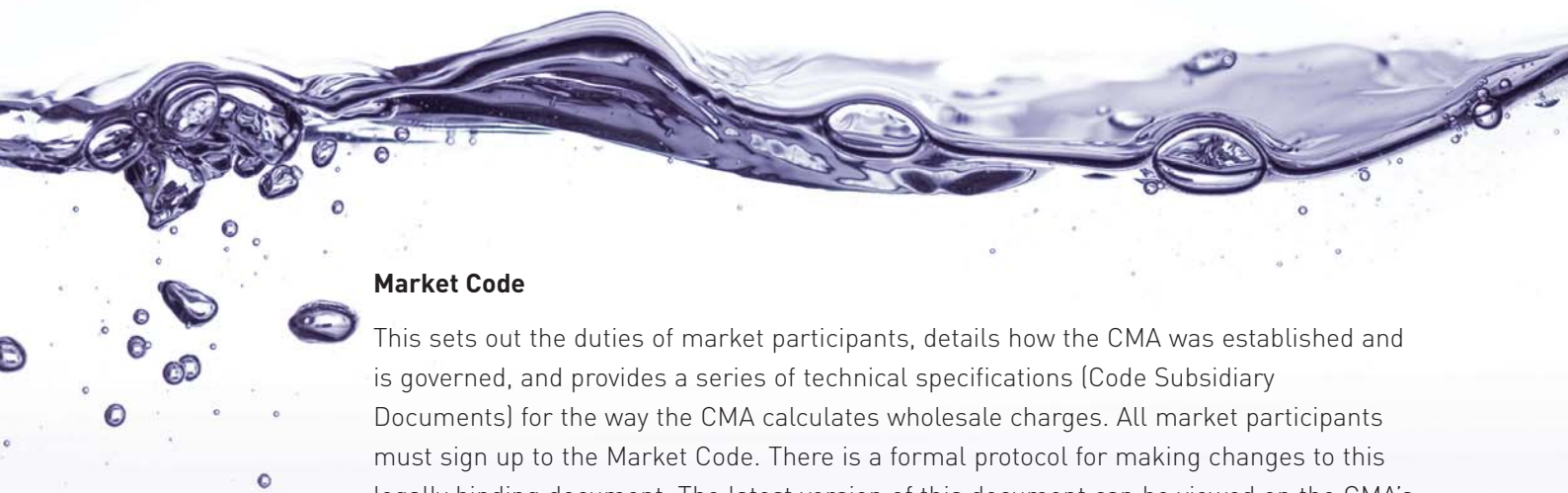
- act as a vehicle for participants' views via a technical panel and a market participants' forum; and
- generally oversee the smooth running of the market.

The diagram below shows the main organisations and groups in the market, and how they relate to one another.



## Market documents

The market is governed by a series of documents setting out how licensed providers are legally required to operate. These documents were initially developed by the LFIG after wide consultation. The main documents are summarised below. Current versions can be viewed on the Commission's website at [www.watercommission.co.uk](http://www.watercommission.co.uk) (except where otherwise indicated).



### **Market Code**

This sets out the duties of market participants, details how the CMA was established and is governed, and provides a series of technical specifications (Code Subsidiary Documents) for the way the CMA calculates wholesale charges. All market participants must sign up to the Market Code. There is a formal protocol for making changes to this legally binding document. The latest version of this document can be viewed on the CMA's website at [www.cmascotland.com](http://www.cmascotland.com)

### **Operational Code**

This governs the way that Scottish Water provides services such as new connections, metering and trade effluent to licensed providers. The Commission considers the Operational Code to be a means of ensuring a uniform approach for market entrants. Due regard must be given to the Operational Code Objectives in relation to the construction, interpretation and enforcement of the Operational Code. Any changes to the Operational Code must fall within the Operational Code Objectives and should be consistent with the Operational Code Principles. The latest version of this document can be viewed on Scottish Water's website at [www.scottishwater.co.uk](http://www.scottishwater.co.uk)

### **Wholesale Services Agreement (WSA)**

The WSA is the contract under which Scottish Water agrees to provide those services for which the licensed provider pays wholesale charges. The terms of this agreement are negotiated between Scottish Water and each licensed provider. The Commission has published a template WSA that is intended to act as a basis for these negotiations.

### **Disconnections document**

This document provides clear and consistent procedures for the water industry in the event of the need for services to be disconnected. The Commission is required to produce this document by the Water Services etc. (Scotland) Act.



### **Default directions**

Each licensed provider is obliged to provide certain retail services, to a particular standard, and at a price not exceeding the maximum amount as set out in these directions.

The directions ensure that no business customer will pay more than they would have paid had competition not been introduced to the non-household sector in Scotland.

### **The licensing process**

In order to become a licensed provider of water and/or sewerage services the prospective licensee must submit an application to the Commission. There are various types of licence but the most common of these is the general licence. Holders of a general licence are eligible to:

- compete for all non-household customers in Scotland;
- supply customers who receive a discount to their wholesale charge;
- participate in the CMA technical panel; and
- nominate and vote for members of the CMA board.

General licence holders are required to pay licence fees and CMA charges. They must also, as mentioned above, offer a default package of services and tariffs to all customers. Water and sewerage services licences are granted separately so, in fact, two licence applications are usually necessary.

The documentation associated with submitting a licence application, and descriptions of the types of licences available can be found on the Commission's website.

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