

THE RETAIL MARKET FOR WATER AND SEWERAGE SERVICES: A POLICY STATEMENT

A new development

The competitive retail market is opening up in Scotland from next April. Under new legislation¹ all non-household customers (whatever their size or location) will be able to buy services from retailers other than Scottish Water.

The Commission is working hard to open the market and ensure that all stakeholders fully understand the processes and procedures, as well as their own roles and responsibilities. Following detailed consultation we have developed a licensing framework and are preparing industry codes and agreements to govern the market.

A full policy statement, setting out our position in greater detail, is available on our website at www.watercommission.gov.uk.

Benefits for customers

Allowing alternative suppliers into the market should bring clear benefits for customers, through lower prices, better quality services and the opportunity to pick and choose between different service providers offering a range of options.

Although Scottish Water will continue to provide retail services to households, these customers should also see benefits from greater competition because Scottish Water's core activities, and the relevant costs, will be more transparent. This will put increasing pressure on Scottish Water to improve its efficiency in operating the network. A more open market should be more innovative too. For example, creative solutions in the way the network is operated may well lead to more efficient water use and less damage to the environment.

Underlying principles

Competition brings greater choice for customers, providing retailers with the incentive to understand their customers' needs and to take steps to meet these needs.

The Commission has an ongoing role to make sure that safeguards are in place to protect household and non household customers. We will intervene only where necessary to support the market's continuing effectiveness.

We will approve Scottish Water's wholesale charges scheme, which will apply to all new entrants.

To make informed choices, non-household customers and businesses that operate in the market (or are contemplating entering the market) will need sound financial information. The market arrangements that we are putting into place, including the rules and procedures that all parties must follow, will support this.

¹ The Water Services etc. (Scotland) Act 2005

Safeguards for customers

Regulating the market

All retail water and sewerage service providers, including Scottish Water Business Stream (the retail entity established by Scottish Water) must apply to us for their operating licences. The application process is an important initial safeguard for customers. We will only grant licences if we are satisfied that applicants:

- can perform the relevant activities adequately,
- have the right level of managerial competence; and
- are financially viable.

We have already granted SWBS with temporary water and sewerage retail licences. We will only grant permanent licences if it can demonstrate to us that its operations are clearly separate from Scottish Water.

In addition to the licence application process, we will use other means available to us, such as conditions attached to the licences and directions to Scottish Water, to regulate the behaviour of retailers.

Services and charges

We want to make sure that customers have access to water and sewerage services on reasonable terms at all times.

- All retailers will have to offer the same benchmark service standards and charges.
- They will also be allowed to offer other combinations of services and prices, as long as they provide clear information about what they are offering, and do not favour particular customers or groups of customers.
- Customers should be able to choose from the different retail packages on offer.
- If a supplier leaves the market, customers of that supplier should be able to switch to another supplier on terms that are no worse than the benchmark service standards and charges of their original supplier.

Ensuring a level playing field

We want to ensure that all market participants, and potential entrants to the market, operate on a level playing field.

- SWBS must have no unfair advantages over other retailers in its dealings with Scottish Water.
- The wholesale prices that Scottish Water charges all retailers will be transparent, will reflect the costs incurred and will be regulated by us.

- In instances where customers seek products and services that alter Scottish Water's wholesale costs, departures from the published wholesale charge are acceptable.

Role of the Central Market Authority (CMA)

We have set up a CMA, owned by market participants, to help shape the market's development and administer its rules. It will be the CMA's role to:

- keep information about which customers are being served by which retailer, and
- inform Scottish Water how much it should charge each retailer for wholesale services.

Until the market is fully open, retailers can enter into 'pre-contracts' with customers to provide services up to April 2008; such agreements must be registered with the CMA.

A full version of this policy statement is available on the Commission's website at www.watercommission.co.uk