

Water Industry Commission for Scotland

Information Note 06

RETAILING CHOICES FOR BUSINESS CUSTOMERS; FAQs

The Water Services etc (Scotland) Act 2005 established a clear legal basis for competition in the water industry in Scotland. Competition will be limited to retail services to non-household customers. The Commission has a duty under the Act to licence entrants into the market. Scottish Water is required to establish a separate retail entity.

What is retail competition trying to achieve?

New entrants can be licensed, from April 2008, who may be able to provide better retail services to business customers, both large and small. This may involve the provision of new services, the improvement of existing services or better specified or lower tariffs. There should also be a clearer focus on meeting the needs of customers from a separate Scottish Water retail arm.

What are retail services in water?

Retail services are all customer-facing services such as metering, billing and customer service. They can include value added services, such as advice to customers on greater economy in the use of water. Wholesale services, are defined as providing water to the customer's pipes or removing waste water from the customer's drains, including trade effluent, and will continue to be provided by the monopoly regulated business, Scottish Water.

How will retail access work?

From January 2007, entrants to the market can apply to the Commission for a licence to supply retail services. There will be a clear process and a predetermined timetable of some 60 working days (depending on the complexity of the case) for considering applications. Entrants will need to demonstrate sufficient ability and sufficient financial strength to supply services on a continuing basis.

Will my business benefit?

Retail competition will apply to all non-household customers regardless of their sector, location or size; there will be no threshold restrictions on those who can change supplier. A small shop in the north of Scotland with modest

usage will have the same opportunity to change supplier as a large industrial user in the central belt.

How will the Commission achieve fair competition between existing and new suppliers?

By ensuring that there is a level playing field, and one that is seen to be level between the retail entity of Scottish Water (who will require a licence like any other retailer) and other suppliers. This will involve demonstrable separation of Scottish Water's retail arm (Scottish Water Business Stream) from the core business of Scottish Water (Scottish Water wholesale). This means separation of management, governance and assets and activities.

By regulating wholesale tariffs rather than retail tariffs, and by ensuring that those wholesale tariffs will be available to all retailers without preference or discrimination.

By allowing all retail suppliers to design tariffs that will be attractive to customers. Such tariffs will not be subject to regulation.

How will the regulator ensure that customers are not exploited while the market is developing?

The Commission will require all retailers to offer a "default" tariff that is properly related to the regulated wholesale price. Customers who were offered tariffs that were more suitable from their point of view would gain compared with the "default", but no customer would be charged more than the "default" – although they could pay more for additional services

As the market develops, "default" tariffs may become a long-stop.

Can existing customers combine to become "self-suppliers"?

Yes, many kinds of association can be licensed. It will also be possible for a single customer operating on several sites to apply for a self-supply retail licence.

In practice will these arrangements simply benefit large customers with bargaining power, to the detriment of small customers?

All customers will have access to a "default" price properly related to the regulated wholesale price. Any "cherry-picking" would relate only to tariffs that improved on the default. Moreover, retailers are likely to put additional pressure on Scottish Water to reduce the costs of its core business. This will ultimately benefit both household and non-household customers.

Will Scottish Water wholesale be able to put any unreasonable conditions on retailers taking its supplies?

No. Any requirement, such as the provision of information to Scottish Water will be governed by an operating code that must be approved by the Commission.

Will customers be able to switch freely from retailer to retailer? What will happen if a retailer refuses further supply or otherwise withdraws from the market?

There will be a market code approved by the Commission to ensure that mechanisms are in place to ensure that switching is simple and can be accomplished rapidly.

What would happen if a retailer withdrew supply, for example because it went out of business?

Customers could switch to another retailer on the other retailer's tariff (which would include a "default" tariff). Scottish Water wholesale has a legal obligation to act as a supplier of last resort.

Who can become a water retailer?

Any legal entity that can demonstrate fitness to carry out the licence obligations, for example, competence in utility activities and sufficient financial strength (see above).

What kind of entity is likely to become a retail water supplier?

Existing providers of utility services that might be able to bundle products and provide cost savings, other water companies in England & Wales and boutique suppliers.

How will the Commission ensure that Scottish Water Business Stream does not have an unfair competitive advantage?

By ensuring demonstrable separation of management, governance, activities and assets. The Commission will also ensure that capital is provided to Scottish Water Business Stream at a commercial, not a public sector rate.

There is much talk in England about common carriage. Will it also be available in Scotland?

Scottish legislation currently forbids common carriage.

Further information about licensing is available in our Information Note 02 "The licensing regime under the Water Services etc (Scotland) Act".