

**Autumn Meeting**  
**Friday 21<sup>st</sup> October 2016**

**Minutes**

**Attendees**

Adam White	Affinity for Business
Julie Granger	Camden
Richard Moore	Castle Water
Mansi Sehgal	City of London
Malcolm Bell	Croydon
Bob Fiddik	Croydon
Andrew Jackson	Ealing
Risa Wilkinson	Ealing
Nick Crook	Enfield
Andrea Latter	Enfield
Sabine Martini	Enfield
Wendy Oliver	Enfield
Shaun Spencer	Hackney
Gillian Cox	Haringey
Saeed Atlas	Harrow
Daniel Austin	Hounslow
Chris Little	Hounslow
Jason Ademola	Islington
Gonzalo Jimenz	Kensington & Chelsea RB
Matt Hull	Kent County Council (LASER)
Tony Cook	Lambeth
Corin Freshwater-Turner	LB Merton
Andrew Stokes	London Energy Project
Adam Cooper	Ofwat
Liz Warren	SE <sup>2</sup>
Dion D'Silva	Surrey County Council
Stacey Forrester	Surrey County Council
Costas Panagiotakopoulos	Westminster

**Apologies**

Gerry Kelly	Bromley
Louise Coster	Camden
Rituparna Kumar	City of London

Kamar Zaman	Haringey
Charles Pipe	Hounslow
Andrew Ford	Islington
Andy Morgan	Kent County Council (LASER)
Shadia Rahman	Kingston RB
Alan O'Connell	Lewisham
Amanda de Swarte	London Energy Project
Waseem Ishaq	Newham
Felix Onyeji	Newham
Beata King	TfL
Andras Kis	Waltham Forest

## 1. Welcome and introductions

### Policy update

#### Bob Fiddik, LB Croydon and LBEG Chair

Bob Fiddik welcomed everyone to the meeting and thanked Camden for hosting. Bob shared the following reflections on policy since the last meeting:

- 1.1. DECC has now been merged into the newly named Department for Business, Energy and Industrial Strategy (BEIS), and we have a new complement of Ministers. Some of the Ministerial portfolios seem unusual (eg, energy and intellectual property).
- 1.2. Government has approved Hinkley Point and given the go-ahead for fracking in Lancashire.
- 1.3. Heat Networks policy has moved on. Support has been available from HNDU for a while and Government has this week announced £39million in funding for heat network projects (the pilot tranche of a £320million programme). The pilot projects will have to be ready to go, as applications for funding need to be during November. Decisions will be made in February 2017.
- 1.4. The LEP has been working with LGA on the major billing and debt issues facing those boroughs who were in contract with British Gas. This collective approach to legal support should help resolve boroughs' issues.
- 1.5. Energy markets: we have probably reached the end of the recent 2 year fall in energy prices as OPEC have started to cut back on oil production. In addition, the weakness of sterling against the dollar is also increasing energy prices in the UK.

## 2. Securing the future of water for the public sector

### Sam Mosaid, Affinity for Business

(see slides)

- 2.1. Demand for water per person is increasing, population is increasing but there is pressure to reduce the amount of water we extract.
- 2.2. Affinity for Business is entering the new, competitive market for providing water services to business. Everyone at the organisation cares about water, sustainability and education. We see water efficiency as part of our DNA and we will be relentless in supporting businesses to improve efficiency.

- 2.3. Incumbent water companies have been tasked at ways of reducing water consumption, by reducing leakage, installing water meters and supporting customers with efficiency programmes. Affinity for Business are also working with customers to support them reducing their consumption number of case examples were given.
- Q1: Are we able to come to you as a supplier and get AMR at all of our sites? And what happens to your metering if you change supplier?
- A1: AMR is widely available and it could be done at all of your sites if a local authority needed it to be. In our experience, Local Authorities have initially targeted their largest using sites to begin with as this is where the highest opportunity for water efficiency savings can be made. When you switch supplier, it's all about who owns the equipment, whether it's the local authority, the retailer or a third party. That's something to think about when you set it up.
- Q2: You gave an example of a toilet with a 1.5 litre flush (compared to 6-7 litres for older toilets). We all remember toilet hippos, which reduced water usage but often meant you had to flush twice. Does the new toilet work better, and is it an Affinity product?
- A2: The toilet is designed specifically to flush at 1.5 litres, rather than a retrofit solution being applied to something that was designed to use more water. We work with a list of preferred suppliers on different products and innovations rather than producing them ourselves.
- Q3: Local authorities have large and complex estates. What sort of electronic services do you provide that would help with management?
- A3: We can offer consolidated billing and EDI billing. We are developing a customer portal which will help customers to self-serve. You'll be able to view bills, look at consumption patterns, make payments. In the future, we'll be looking at innovations such as the opportunity to compare consumption with other users to trigger behaviour change.
- Q4: You gave an example of a school which made significant savings. Was that all about fixing a leak?
- A4: Yes – it was a leak. You'd expect a leak to be visible, but it wasn't.

### **3. Adam Cooper, Director, Ofwat** (see slides)

- 3.1. I come from an energy background and it was a shock to come into the water market without competition. The system was that the regulator set out the rules and the suppliers complied. With deregulation, there's a lot to be done, not just legislation and supporting work, but actually a cultural change.
- 3.2. We are opening up the retail markets for business customers. That means that businesses will have choice about who they buy their water services from (the wholesale companies in the background will remain unchanged). We are now in "shadow operation" with a functioning system, a centralised database of customers, and we're seeing the first transparency of how regulated operators are working.
- 3.3. The market will open on 17 April 2017 – there's confidence among all parties that this will happen. From that date, 1.2 million business customers will be able to shop around.
- 3.4. Retail is quite a low margin business – on average, it's about 2.5% margin for incumbents. Some sectors are more competitive than others and this is where prices and consumption could be driven down.

3.5. Customers will be able to start demanding services – the lesson from a similar process in Scotland is that the public sector is an attractive market to suppliers. Competition will expose problems and the trick for the regulator will be how to resolve them. There is new competition guidance coming out to look at the relationship between retailers and wholesalers (there shouldn't be any preferential treatment of any retailer over another). We also looked at the energy sector and the recent CMA report when thinking about customer protection. We don't have any regulatory power over third parties like billing services providers, but we will be consulting on this because the reputational risk to the sector is high.

Q1: We pay our bills and then recharge schools in our area. We are thinking of becoming a water supplier under the new set-up. What's the licensing requirement?

A1: This is a huge difference from the energy sector and I was surprised to see it go into law. You can become a self-supplier – where you are effectively a retailer but only to yourself. The obligations are the same as those of other retailers, but there are some parts around customer protection that won't apply. It needs some discussion with the licensing people and you'd need to look at the costs of being a supplier – eg, how much it will cost you to go around all the wholesalers looking for the best offer.

Q2: We're not sure about pricing and quality in water. We know what we want from pricing and quality in energy. But how do we know one retailer can provide better quality than another when we procure?

A2: Water quality remains with the wholesalers, unless there are other services using raw water that you procure differently. Drinking water should be drinking water, whoever you buy it from. Services beyond that – you can challenge retailers. What can they do to deliver what you want? There's no portfolio risk for the retailer, it's all further up the supply chain.

Q3: On back billing, if we come across under/over payments when we're looking at our AMR, what happens?

A3: If you have overpaid, there is no limit on getting your money back. If you have underpaid, the water company can only go back 16 months to claim from you. We had to limit this because we couldn't make retailers liable for what wholesalers did in the past.

Castle Water: The key thing about retailers is now a focus on the customer rather than a focus on fulfilling an obligation. Customer service has historically been about fixing leaks and chasing payments. You should see a move to a customer driven approach.

Q4: We're finding meters embedded in lots of odd locations – even buried under the middle of roads. How do we get better locations for meters?

A4: Metering assets will stay with the wholesalers and we need to see what happens around this when the market opens. The roll out of AMRs should drive demand to change metering. We're seeing both good and bad from the smart meter rollout in energy. The metering asset stays with the wholesalers but the meter reading would be done through the retailer.

Affinity: We see it as part of a retailer's responsibility to liaise with the wholesaler to make sure you have got what you need. All wholesalers have a five year plan which includes development of infrastructure – it's worth seeing how on top of this your retailer is. We've just gone through a data exercise to identify properties that are eligible for the market. The terminology is "non-household" and this has brought a lot of unmetered customers to the market.

Q5: Can customers feed into the process where a premises has been misclassified?  
A5: Ofwat have taken the view that eligibility should be as wide as possible, which has led to some questions (eg, Halls of Residence). If you think a site is eligible, then you should talk to your retailer / wholesaler to agree one way or the other. If there is no agreement, then it would go to Ofwat.

Q6: With so many locations and providers, will you have consistency of service?  
A6: The scope is so wide that if you're not a house, then you're probably OK. There may be some grey areas for different types of accommodation. There will be eligibility guidance, but this is flexible as we learn more about the market.

Affinity: You will want to know what's in and what's out, in detail, so you should start looking at this very soon.

Q7: Is anyone doing self-supply? Is there a public list of retailers?  
A7: The WSSL list is on the Ofwat website and would show the current list of retailers (<http://www.ofwat.gov.uk/regulated-companies/licences/#wssl>). I don't think anyone has yet applied for self-supply.

Q8: If you fall out of contract, could your prices double (like in the energy market)?  
A8: Existing companies will continue to operate within price controls. New retail entrants won't be subject to price controls BUT the wholesale price of water will stay controlled (so you'll always have transparency of the wholesale price of water and therefore of the retailer's margins).

Q9: What types of offers might there be (fixed / variable, contract length)?  
A9: Ofwat isn't putting anything out on this. Local authorities are big enough buyers to get the terms they want. I wouldn't sign up for 5 or 10 years right now; you'll want to see how the market develops.

#### **4. Richard Moore, Business Development Director, Castle Water** (see slides)

4.1. All water companies are required to separate wholesale and retail activities. This happened in Scotland a few years ago, and Castle Water has been active in the Scottish retail market.

4.2. Castle Water has taken on customers of Portsmouth Water and are now taking on Thames Water's business customer portfolio. Whilst Thames (in London) would remain your wholesaler, your relationship would now be with Castle or (if you switch) with a different retailer.

Q1: We're concerned about losing some of the things that we have achieved. For example, we are currently able to monitor water consumption in all of our schools. Might these arrangements disappear?

A1: We are taking on Thames Water's customer base at first and one of the reasons we've started early is to get these things negotiated. We will take on their databases but not their CRM so we won't have the customer history. We're taking on Thames Water customers now to make sure we can carry on ad hoc or historic arrangements. You should talk to your Thames Water Key Account Manager about any concerns.

Q2: Is it possible that cheap water prices might be used to attract customers and then there are high prices for sewerage services?

A2: You will know what the wholesale water price is – there is no hedging involved, you'll know this for five years because of the price controls that are in place. If you are looking at additional services, then there will be additional charges – which will vary

and which could be commissions, fees or whatever. Things like the timing of billing could be valuable to you if you've got peaky cashflow or if you want to put money towards something in advance.

Q3: There is a variety of factors that affect prices in energy. What factors affect the price of water?

A3: The wholesale cost is subject to price control regulations. The retail cost will be things like the cost of having a customer service centre, the cost of billing. It's also important for retailers to have good working capital so that we can pay wholesalers monthly but bill customers at a variety of frequencies.

Ofwat: Price control works on a range of factors – capex, statutory requirements, quality and availability of water. We're now defining price controls to come in in 2019. There are longer term factors too – the impact of climate change on water availability, for example, which has strong regional variations.

Affinity: The other big variable would be the cost of bad debt. Current tariffs often spread bad debt across everyone.

## **5. The view from a Borough** **Corin Freshwater-Turner, London Borough of Merton**

5.1 Before we do anything about suppliers, we needed to know what we currently have. We looked at our portfolio of meters and have upgraded about 100 meters onto AMR. We have a lot of parks which are not manned, so if there's a leak, we won't know about it. Installing AMR for these 100 sites cost us approximately £45,000 and will payback in 2-3 years. Of the 100 meters, we had to change a few of them, and Thames Water covered the costs of about 2/3rds of them.

5.2 Once you know what you have, you need to think about how you're going to run it. Either GSM modems for each meter or repeaters and a big aerial at a central point.

5.3 The biggest problem has been finding the meters. Often people on site will know where they are but they might not be tracked in databases. But they are worth finding and it's worth doing the AMR. Get your site managers and locality/Green Spaces teams on it. You will need shut-off to change meters, but it isn't for long (and it's not always needed if you're just adding AMR to existing meters).

5.4 Once you have the data, it's about data mining it. In the first few months of our AMRs, we found £17,000 annual savings from spotting leaks or constant flows that shouldn't be there. For example, in the civic centre, we found £2,000 worth of savings from, eg, urinals flowing constantly.

5.5 Get your list of meters sorted quickly and get the exchanges started as soon as you can as they take time.

5.6 Our Borough is a two-supply area, and both wholesalers have been happy to work with our chosen meter installer. We own our AMR so we will retain them if we switch supplier.

Q1: How do you manage your data?

A1: The data goes through a Thames Water portal and we download it to Systems Link.

Q2: Customers / sites will be identified through a SPID number. Will this contain geolocation data?

A2: (response from Ofwat): Yes, there are a few gaps at the moment, but there will be a location against the SPID. We have 2.6m SPIDs expected to go into the system, and the companies are working through gaps at the moment trying to identify them. There are more SPIDs than customers because of fresh and waste water.

Q3: Can we have access to our own SPID list?

A3: (response from Ofwat) MOSL, the market operator, has the data. It only has a relationship with wholesalers at the moment, but this will open up to retailers having sight of it too.

Q4: In the last year, there's been a significant drop in costs for AMR for energy. Do you expect this to happen in water?

A4: Technology costs are coming down across all utilities so I would expect it to happen and for competition to drive it.

## **6. Dates for future meetings**

- 19 January 2017, City Hall – we are hoping that the new Deputy Mayor, Shirley Rodrigues, will attend and update on progress with Energy for Londoners
- 5 April 2017, TfL – this will also be the AGM
- 13 July 2017, Kensington Town Hall