

Synthesis of market data on low water use business customers' experiences of the water retail market

Consumer Council for Water

31 March 2025



FINAL REPORT

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EXECUTIVE SUMMARY

Since the opening of the water retail market in England in April 2017, non-household (NHH) customers have had the ability to choose their water retailer. This decision was made with the aim of improving the customer experience, encouraging greater water efficiency and reducing bills. Evidence suggests that larger businesses have been able to engage with the market and have the potential to realise greater benefits.¹ However, the realisation of material benefits by NHH customers with lower water usage (those using less than 0.5 million litres per annum) – hereafter referred to as “Group 1 customers” – remains less clear, and these business customers appear to have lower engagement with the market.² CCW has identified a need to synthesise existing market data to better understand whether these business customers have meaningfully benefitted from retail competition or whether barriers exist that prevent them from doing so.

CEPA has been commissioned by the Consumer Council for Water (CCW) to produce a synthesis report covering market data relating to the experiences of Group 1 customers in the water retail market. Specifically, CCW has asked us to:

- Collate all available evidence on their level of activity in the market;
- Assess the benefits and disbenefits they are experiencing in the market; and
- Determine whether there has been any notable improvement since CCW published its Five-Year Review in March 2023.

OUR FRAMEWORK FOR ASSESSING THE BENEFITS AND DISBENEFITS OF COMPETITION

In common with other retail markets for essential services (e.g. electricity and gas), economic theory suggests that the barriers to entry into the water retail market ought to be relatively low. Retail and customer service activities are not particularly ‘capital intensive’ in terms of the acquisition of new customers, maintenance of an underlying asset base, or the investment in technology and innovation required to remain competitive over the longer-term. In theory, the opening of the retail market for NHH customers would facilitate the entry of new suppliers into the market to compete against the ‘incumbent’ suppliers on the efficiency and quality of their services.

However, in practice the ability of water retail companies to differentiate themselves from competitors is partially constrained. Water is a relatively homogenous *product*, in that the quality, features, and function of the commodity do not differ depending on the retailer. In addition, a significant portion of the final bill paid by NHH customers is based on wholesale charges set by the regional water and sewerage companies, and not within the direct control of the water retailers themselves. This means that their ability to compete (sustainably) on price is

¹ OFWAT (SEPTEMBER 2022), ‘FIVE YEARS OPEN FOR BUSINESS - TAKING STOCK’, AVAILABLE AT [OFWAT.GOV.UK](https://www.ofwat.gov.uk).

² CCW (MARCH 2023), ‘BUSINESS CUSTOMERS’ EXPERIENCE OF THE WATER RETAIL MARKET - FIVE YEAR REVIEW’, AVAILABLE AT [CCW.ORG.UK](https://www.ccw.org.uk).

largely constrained to reducing the cost of the retailing activities that they themselves control (e.g. meter reading and billing).

In effect, water retailers compete with one another on the quality of customer service, the pricing of their tariffs (subject to the constraints noted above), and any value-added services, such as water efficiency advice.

New entrant retailers are attracted to enter the market only where the expected benefits (in terms of new customer acquisition and resultant revenue) outweigh the costs. This means that there needs to be a customer base that is aware of the benefits of switching supplier and is motivated to do so. A disengaged customer base or frictions in the switching process reduce the attractiveness of the market to new entrant retailers.

In that context, if the competitive retail market for NHH customers was generating net benefits for Group 1 customers, we would expect the data to show:

- Entry into the retail market by new suppliers, coupled with sustainable growth in market share of successful new entrants.
- An 'external' switching rate (i.e. to a new supplier) and renegotiation to improved contracts with current retailers, of similar scale to that seen in other comparable markets (e.g. electricity and gas supply).
- High levels of satisfaction amongst Group 1 consumers, as customers would switch away from suppliers offering a poor customer experience.
- Differences in tariff pricing, with the most engaged customers able to access material financial savings by switching supplier.

KEY FINDINGS

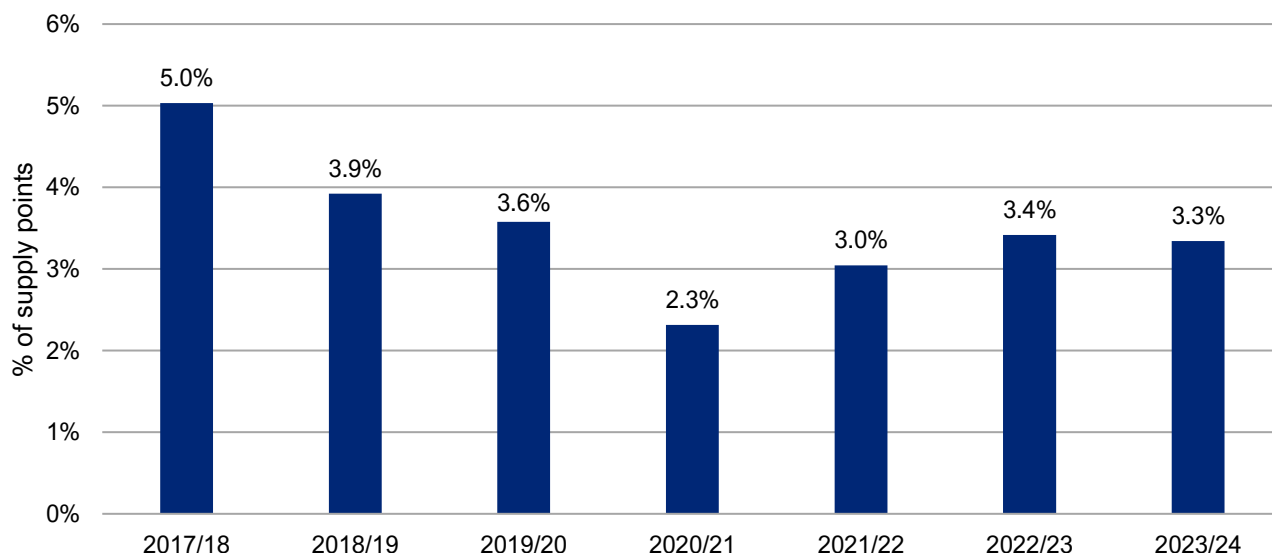
There have been new entrants into the water retail market. When the market opened in 2017 there were 10 retailers: 7 were formed from the 'incumbent' retail operations of the regulated water companies. Business Stream (a subsidiary of Scottish Water) and Castle Water (an independent retailer) joined the market through the acquisition of water company retail businesses. Clear Business Water (another independent) also entered the market at the same time.

Several new, independent retailers have subsequently been granted a retail licence since the market opened, and 6 of these have managed to obtain a material market share. Of these new independents, Everflow has achieved the largest market share and net growth of over 137,000 Group 1 customers since 2017. However, it is still only the 5th largest retailer by market share of supply points.

We find relatively little change in the ranking of individual retailers in terms of market share over the last 7 years. The most significant growth has been achieved by Business Stream via its acquisition of Yorkshire Water Business in 2019, and by Castle Water via its acquisition of South East Water Choice in 2018, and Affinity Water for Business in 2020.

Despite the presence of a range of alternative suppliers, Group 1 customers are not participating as actively in the market as others. We find that Group 1 supply point switching rates are around 3% to 3.5% per annum in recent years, down from an initial 5.0% in the first year of the market (see *Figure 1* below).³ This is relatively low compared to the switching rates of Group 2 and 3 customers.

Figure 1: Percentage of total Group 1 supply points switching supplier, 2017/18 to 2023/24



Source: MOSL Switching and Supply Points Dashboards⁴

It is also low compared to switching rates in other similar markets. For example, switching rates for domestic electricity customers were typically around 12% to 15% per annum prior to 2010, reaching a peak of around 20% per annum in 2019 before the combination of the default tariff cap and the energy price crisis led to a dramatic reduction in the attractiveness of switching. Ofgem's consumer research indicates that switching activity is even higher amongst non-domestic users: 33% of businesses surveyed for Ofgem's 'Businesses' experiences of the energy market 2024' report said that they had switched energy supplier in the last 12 months.⁵

By September 2024, only 22% of Group 1 supply points had switched water retailer at least once since the market opened.⁶ Assuming that the current rate of switching continues – and that all future switches are attributed to supply points that have never switched before (an implausible but simplifying assumption) – it would take until 2032 for a majority of Group 1 supply points to have switched, and until at least 2045 for all Group 1 supply points to have switched at least once.

³ ANALYSIS OF MOSL SWITCHING DASHBOARD, AVAILABLE AT [MOSL.CO.UK](https://mosl.co.uk).

⁴ ANALYSIS OF MOSL SWITCHING AND SUPPLY POINTS DASHBOARDS, AVAILABLE AT [MOSL.CO.UK](https://mosl.co.uk) and [MOSL.CO.UK](https://mosl.co.uk).

⁵ IFF RESEARCH (MARCH 2025), 'BUSINESSES' EXPERIENCES OF THE ENERGY MARKET 2024: REPORT FOR OFGEM', AVAILABLE AT [OFGEM.GOV.UK](https://ofgem.gov.uk).

⁶ ANALYSIS OF MOSL SWITCHING DASHBOARD, AVAILABLE AT [MOSL.CO.UK](https://mosl.co.uk).

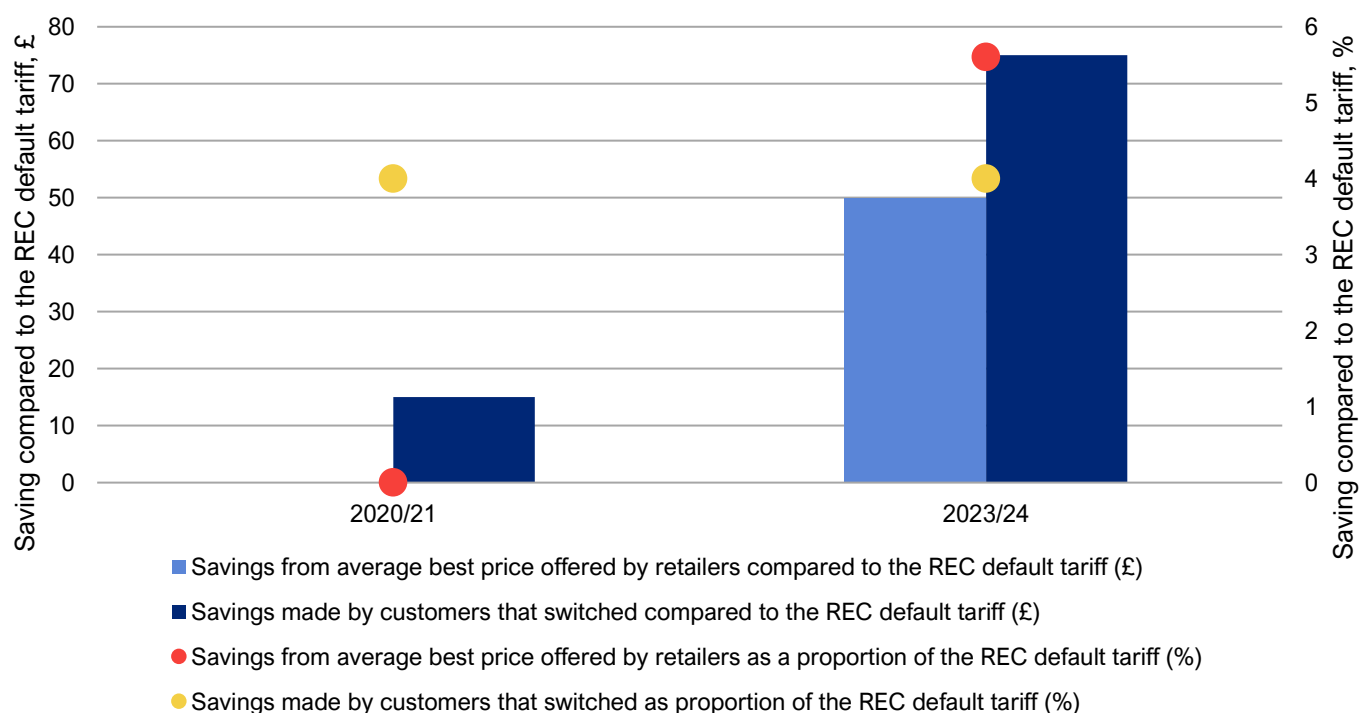
FACTORS WHICH MAY BE DRIVING LOW SWITCHING RATES AMONGST GROUP 1 CUSTOMERS

The data suggests that there may be several reasons why switching activity amongst Group 1 customers is relatively low and the significant majority of customers appear ‘disengaged’.

First, the marginal revenue benefit to a supplier of acquiring a new Group 1 customer is low and therefore suppliers are more likely to focus their efforts on Group 2 and 3 customers. Group 1 customers account for around 85% of the market on a supply points basis, but only 11% of total NHH consumption and less than 40% of NHH retail market revenue.⁷

Second, there is a perception that suppliers find it challenging to price below the Retail Exit Code (REC) price cap, which means that they are constrained in their ability to attract new customers (particularly from the ‘disengaged’ group who have never switched before). The financial benefits of switching are small in both absolute and relative terms, as shown in Figure 2 below.

Figure 2: Price savings available in the market compared to the REC tariff



Source: Ofwat⁸

Third, awareness of the market amongst Group 1 customers is low. According to CCW research⁹, only around 52% to 53% of micro and small businesses are aware of the ability to switch supplier. Although this indicator has improved in recent years compared to the awareness scores reported in Ofwat’s *Business retail market updates* (results are available for the period 2017/18 to 2021/22), the rate of improvement is slow.

⁷ OFWAT (OCTOBER 2024), ‘BUSINESS RETAIL MARKET 2023-24 UPDATE’, P.8., AVAILABLE AT [OFWAT.GOV.UK](https://www.ofwat.gov.uk).

⁸ OFWAT (OCTOBER 2024), ‘BUSINESS RETAIL MARKET 2023-24 UPDATE’, AVAILABLE AT [OFWAT.GOV.UK](https://www.ofwat.gov.uk).

⁹ CCW (NOVEMBER 2024), ‘TESTING THE WATERS 2024: DATA REPORT’, AVAILABLE AT [CCW.ORG.UK](https://www.ccw.org.uk).

Fourth, there is potentially a perception issue between the pre- and post-switching experience. The latest Ofwat and CCW joint business customer insight survey shows that, of micro and small businesses which are aware of the market and had considered switching or renegotiating but decided not to, 71% said that this was due to the perceived effort involved.¹⁰ CCW's survey shows that 35% of microbusinesses are happy with their current provider and 14% do not think that large differences in price or quality could be achieved by switching provider.¹¹

However, CCW's Testing the Waters 2024 survey results also show that amongst microbusinesses that had switched, 33% considered that they had received better service as a result, and 66% considered that they received better value for money.¹² This suggests that the actual benefits of switching are greater than Group 1 customers expect them to be, and so perhaps there is scope for the actual benefits of switching to be better advertised.

ASSESSING THE EVIDENCE ON DISBENEFITS EXPERIENCED BY GROUP 1 CUSTOMERS

The main criticism of competition in the retail market for similar essential services (e.g. gas and electricity) was the differences in prices paid by 'engaged' and 'disengaged' customers. Prior to the introduction of the default tariff cap, the 2016 Energy Market Investigation by the Competition and Markets Authority (CMA) found that the average dual fuel domestic customer on a standard variable tariff with one of the six largest energy firms could save £200 per annum by switching.¹³

The same 'disengagement penalty' does not appear to exist for the 78% of Group 1 customers in the water retail market that have never switched, in large part because of the REC price cap. When Ofwat last reviewed the difference between the REC cap and the best price offers in the market, it found that the average small consumer could save around £75 per annum.¹⁴ In our view, this is a relatively trivial amount in the context of the average annual turnover of a microbusiness although the disparities in turnover across the population of microbusinesses (with employees) in the UK will be very large.¹⁵

The largest disbenefit appears to be reflected in the volume of complaints raised about suppliers. Such complaints often concern important aspects of the supplier's service: the accuracy of billing, the timeliness of meter reading and the responsiveness to customer contacts. Complaints also highlight the somewhat cumbersome nature of the system's response to customers where something has gone wrong, which involves more than one party to resolve (e.g. if a customer records a significant increase in metered consumption due to a leak).

This might cause significant hassle to a minority of Group 1 customers, but we found no evidence that they complain more than Group 2 or 3 customers. Based on CCW data on

¹⁰ OFWAT AND CCW (AUGUST 2020), 'BUSINESS CUSTOMER INSIGHT RESEARCH 2020', AVAILABLE AT [OFWAT.GOV.UK](https://ofwat.gov.uk).

¹¹ CCW (JANUARY 2022), 'TESTING THE WATERS 2022', AVAILABLE AT [CCW.ORG.UK](https://ccw.org.uk)

¹² CCW (NOVEMBER 2024), 'TESTING THE WATERS 2024: DATA REPORT', AVAILABLE AT [CCW.ORG.UK](https://ccw.org.uk).

¹³ CMA (JUNE 2016), 'ENERGY MARKET INVESTIGATION – APPENDIX 9:2 ANALYSIS OF THE POTENTIAL GAINS FROM SWITCHING', AVAILABLE AT [GOV.UK](https://gov.uk).

¹⁴ OFWAT (OCTOBER 2024) 'BUSINESS RETAIL MARKET 2023-24 UPDATE', AVAILABLE AT [OFWAT.GOV.UK](https://ofwat.gov.uk).

¹⁵ ONS (SEPTEMBER 2024), 'UK BUSINESS ACTIVITY SIZE AND LOCATION: 2024', AVAILABLE AT [ONS.GOV.UK](https://ons.gov.uk).

complaints, there were 0.47 written complaints per 1,000 Group 1 supply points¹⁶ compared to 0.98 for Group 2 supply points and 0.90 for Group 3 supply points.¹⁷

The number of overall written complaints to retailers, CCW and Ofwat have been on a downward trend since peaking in 2018/19 but are still high in absolute terms. CCW is beginning to explore whether this trend is offset by an increase in complaints via non-written channels such as telephone, social media, mobile messaging apps and online webchats.

The evidence on overall customer satisfaction amongst microbusinesses varies. Ofwat's 'Five years open for business' review found that satisfaction amongst micro and small businesses had been stable at around 75% to 80% between 2017 and 2022 and was slightly higher than satisfaction amongst large customers.¹⁸ However, CCW's more recent Testing the Water surveys find a downward trend in satisfaction and notes that satisfaction amongst businesses in England is lower than in Wales, where the market is only open to NHH customers which use at least 50ML of water per annum.¹⁹ Although this data point is relevant, the survey responses are not sufficiently granular to determine why Welsh businesses are more satisfied with the service they receive and whether this is in some way linked to market structure.

OUR CONCLUSIONS

Based on the data which we have synthesised in this review, we conclude that the water retail market for Group 1 customers is simply not a very 'dynamic' market and has not delivered the benefits that were expected when the market was originally opened.

The main drivers of this low dynamism appear to be (a) low levels of awareness across Group 1 customers; (b) low price differentials, particularly compared to the REC price cap²⁰; and (c) low and/or few perceived benefits from switching supplier.

Conversely, the data does not clearly show that Group 1 customers suffer systemic detriment from being in the market either. There are a large number of complaints against water retailers, often on fundamental issues. But it is not possible to conclude that micro and small businesses are disproportionately affected by these issues.

With the benefit of hindsight, this might have been a foreseeable outcome at the point of opening the market to competition, in that new suppliers to the market will tend to focus on segments where revenue and market share is more readily obtainable. Given that the largest 15% of NHH consumers account for over 60% of total retail revenue, it is perhaps not surprising that competition is more intense for Group 2 and 3 customers. It would be useful for further

¹⁶ OFWAT (SEPTEMBER 2022), 'FIVE YEARS OPEN FOR BUSINESS – TAKING STOCK', AVAILABLE AT [OFWAT.GOV.UK](https://www.ofwat.gov.uk).

¹⁷ CCW COLLECTS DATA ON THE SIZE OF THE BUSINESS FOR THE COMPLAINTS IT RECEIVES, WHERE BUSINESS SIZE IS BASED ON THE NUMBER OF EMPLOYEES (MICRO, SMALL, MEDIUM, LARGE). WE ASSUME MICROBUSINESSES LARGELY ALIGN WITH THE GROUP 1 CUSTOMER BASE. WE HAVE ADJUSTED THE DATA ON COMPLAINTS WITH THE NUMBER GROUP 1/2/3 SUPPLY POINTS.

¹⁸ OFWAT (SEPTEMBER 2022), 'FIVE YEARS OPEN FOR BUSINESS – TAKING STOCK', AVAILABLE AT [OFWAT.GOV.UK](https://www.ofwat.gov.uk). THE DATA ALSO SHOWS THAT THERE WAS A COVID-19 AFFECTED REDUCTION IN SATISFACTION IN 2021/22.

¹⁹ CCW (NOVEMBER 2024), 'TESTING THE WATERS 2024', AVAILABLE AT [CCW.ORG.UK](https://www.ccw.org.uk).

²⁰ FOR CLARITY, WE DO NOT SUGGEST THAT INCREASING THE REC PRICE CAP WOULD DELIVER GREATER BENEFITS TO GROUP 1 CUSTOMERS BY ENABLING GREATER COMPETITION, PARTICULARLY WHERE A SUBSTANTIAL MAJORITY OF SUPPLY POINTS HAVE NEVER SWITCHED.

studies to investigate why the benefits of competition for Group 2 and 3 customers appear to have not ‘trickled down’ to Group 1 customers.

The situation appears to have marginally improved since CCW’s Five-Year Review in March 2023 in that the percentage of supply points which have switched at least once continues to increase and the potential for price savings from switching away from the REC price cap has increased. There is some evidence of a downward trend in customer satisfaction for small and microbusinesses, although the difference in reported satisfaction levels to larger businesses (between 3% to 6% points) is limited and it is not dissimilar to satisfaction trends in the electricity and gas retail markets.

However, the ambition set out in CCW’s Five-Year Review for an increase in Group 1 switching by 10% points by April 2025 has not been met. At the present switching rate it appears very unlikely that CCW’s target will be achieved by the end of 2025. In our view, the data suggests that very significant changes may be required to improve the dynamism of the market.

1. INTRODUCTION

Since the opening of the water retail market in England in April 2017, non-household (NHH) customers have been able to choose their water retailer. This decision was made with the aim of improving services through: the provision of better customer experience; support to make more efficient use of water resources; and downward pressure on NHH tariffs through competition.²¹

Previous studies have found that large NHH water users have been more engaged with the market and relatively well placed to realise the benefits of competition. However, it is less clear that NHH customers with lower water usage – those using less than 0.5 million litres per year, hereafter referred to as “Group 1 customers” – are able to realise these benefits.²²

Previous research has shown that Group 1 customers exhibit much lower engagement with the market, on average. The Consumer Council for Water’s (CCW) ‘Five-Year Review’ of the water retail market, published in March 2023, recommended that there should be a change to the eligibility threshold in England unless there is improvement in the tangible benefits being realised for low water use NHH customers.²³

In that context, CCW commissioned CEPA to synthesise existing market data and assess it, to better understand the experience of Group 1 customers. The objective of this report is to determine the benefits and disbenefits that Group 1 customers have experienced from being eligible for the market, and to assess the extent to which this has improved or deteriorated since March 2023 (when CCW published its ‘Five-Year Review’).

This will enable CCW to decide – in its view – whether the market is ever likely to work effectively for Group 1 customers.

This synthesis report draws together data from various existing sources, including research previously published by Ofwat and CCW. Where possible, we refer to the most recent market data, such as MOSL’s switching dashboard which provides data up to September 2024.²⁴ However, in some cases we report data from sources which are not updated on an annual basis, or which are more than 2 years old. We use this evidence only where we believe it adds depth and nuance to the discussion, and we label it accordingly, to enable readers to draw their own conclusions.

In this report we have used the terms retailer or supplier interchangeably in the context of the water sector.

²¹ OPEN WATER (ACCESS MARCH 2025), ‘THE BENEFITS OF THE BUSINESS RETAIL MARKET’, AVAILABLE AT [OPEN-WATER.ORG.UK](https://open-water.org.uk).

²² CCW (MARCH 2023), ‘BUSINESS CUSTOMERS’ EXPERIENCE OF THE WATER RETAIL MARKET – FIVE YEAR REVIEW’, AVAILABLE AT [CCW.ORG.UK](https://ccw.org.uk).

²³ CCW (MARCH 2023), ‘BUSINESS CUSTOMERS’ EXPERIENCE OF THE WATER RETAIL MARKET – FIVE YEAR REVIEW’, AVAILABLE AT [CCW.ORG.UK](https://ccw.org.uk).

²⁴ MOSL SWITCHING DASHBOARD. AVAILABLE AT [MOSL.CO.UK](https://mosl.co.uk).

1.1. OVERVIEW OF CUSTOMERS IN THE WATER RETAIL MARKET

The water retail market allows 1.2 million eligible²⁵ businesses, charities and public sector organisations to choose their water supplier. Unlike household customers, they are not restricted to buying water services from the regional monopoly water companies. Instead, they can shop around, renegotiate, and find the right deal for them. If customers are dissatisfied with the service they get, they can take their business elsewhere.

The water retail market works like many other open utility markets (such as telecoms, electricity and gas). Retail suppliers buy wholesale services (the physical supply of water and/or removal of wastewater) from the regional water companies and offer a package to sell to eligible customers. Retailers also carry out meter reading, billing and other customer service functions, and provide additional ‘ancillary’ services such as water efficiency advice.

Ofwat categorises NHH customers into three groups according to how much water they consume: Group 1 customers consume less than 0.5MI per year; Group 2 customers consume between 0.5–50MI per year; and Group 3 customers consume over 50MI per year. Table 1 below shows the number of customers in each group and the estimated proportion of total NHH consumption and revenue attributable to each group.

Table 1: Landscape of non-household customers in the water retail market by band

Customer bands, MI / year	Number of customers	Proportion of total customers, %	Proportion of total market consumption, %	Proportion of total market retail revenue, %
Group 1 (<0.5)	998,00	84.6	10.6	39.8
< 0.05	583,000	49.4	2.3	21.2
0.05 - 0.5	415,000	35.2	8.3	18.6
Group 2 (0.5-50)	180,000	15.2	46.5	45.3
0.5 - 5	163,000	13.8	24.1	24.7
5 - 50	17,000	1.4	22.4	20.6
Group 3 (> 50)	2,000	0.2	43.0	14.9

Source: Ofwat (2024) Business Retail Market 2023/24 Update

Table 1 shows that Group 1 customers constitute just under 85% of total customers in the market but only 10.6% of water consumption and just under 40% of revenue. On average they consume around 0.05MI per year and their typical average expenditure on water is between £500 to £800 per year. Therefore, the median Group 1 customer is broadly comparable in consumption volume and expenditure terms to an average household customer.

²⁵ ELIGIBILITY OF NHH CUSTOMERS TO SWITCH IN THE WATER RETAIL MARKET IS EXPLAINED AT [OFWAT.GOV.UK](https://www.ofwat.gov.uk).

1.2. EXPECTED FEATURES OF A COMPETITIVE RETAIL MARKET

In common with other retail markets for essential services, such as electricity and gas, economic theory suggests that the barriers to entry into the water retail market should be relatively low. Retail and customer service activities in the water sector are not particularly ‘capital intensive’ in terms of working capital, the acquisition of new customers, maintenance of an underlying asset base, or the investment in technology and innovation required to remain competitive over the longer-term. In theory, the opening of the retail market for NHH customers should have facilitated the entry of new suppliers into the market to compete against the pre-existing ‘incumbent’ suppliers for market share, by improving on the efficiency and quality of their services.

However, the ability of water retail companies to differentiate themselves from each other is constrained. Water is a relatively homogenous product. The quality, features, and function of the product are commodity-like in nature and do not differ depending on the retailer. Additionally, a significant portion of the final tariff set by the retailer is based on the wholesale charges set by the regional water companies. The percentage of the final bill accounted for by wholesale charges varies depending on consumption, but can be more than 90% in some cases.²⁶ Therefore, most of the tariff is not within the direct control of the water retailers themselves, which means that their ability to compete on price is constrained to finding lower cost means of delivering customer service, metering and billing activities. Short-term strategies to gain new customers by pricing below the actual cost to serve would not be sustainable over the longer term.

In summary, aside from the pricing of their tariffs (subject to the constraints noted above), water retailers compete with one another on the quality of customer service, and the ability to offer ancillary services, such as water efficiency advice.

New entrants are attracted to enter the market only where the expected benefits (in terms of new customer acquisition and resultant revenue) outweigh the costs. They rely on a customer base that is aware of the benefits of switching supplier and is motivated to do so. A disengaged customer base or frictions in the switching process will reduce the attractiveness of the market to new entrants by reducing their chances of recovering the sunk cost of their initial investment in entering the market.

In that context, if the competitive retail market for NHH customers were generating net benefits for Group 1 customers, we would expect the data in this report to show:

- Entry into the retail market by new suppliers, coupled with sustainable growth in market share of successful new entrants.
- An ‘external’ switching rate (i.e. to a new supplier) and renegotiation to improved contracts with current retailers of similar scale to that seen in other comparable markets (e.g. electricity and gas supply).

²⁶ WAVE UTILITIES (ACCESSED MARCH 2025), ‘CHANGES TO YOUR CHARGES EXPLAINED’, AVAILABLE AT [WAVE-UTILITIES.CO.UK](https://www.wave-utilities.co.uk).

- High levels of satisfaction amongst Group 1 consumers, as customers would switch away from suppliers offering a poor customer experience.
- Some differences in tariff pricing, with the most engaged customers able to access material financial savings by switching supplier.

In Section 2, we analyse the key market indicators and set out our key findings with respect to whether the market demonstrates these features (or not). Then, in Section 3, we consider the evidence ‘in the round’ to determine whether the market is delivering (or is likely to deliver) material net benefits for Group 1 customers.

2. ANALYSIS

This section reports on the key indicators that we have considered as part of our analysis, to understand whether the retail market provides benefits to Group 1 customers. These include: market shares; switching rates, measures of awareness of the market and other reasons for not switching; and indicators related to satisfaction with retail services, including reported satisfaction and numbers of complaints.

2.1. RETAILER MARKET SHARES

When the market opened in April 2017 there were 10 retailers: 7 were formed from the ‘incumbent’ retail operations of the regulated water companies²⁷, whilst Business Stream (a subsidiary of Scottish Water), and Castle Water joined the market through the acquisition of water company retail businesses.²⁸ Clear Business Water (an independent retailer) entered the market at the same time.

Several new, independent retailers have subsequently been granted a retail licence, of whom 6 have managed to obtain a material market share. Of these new independents, Everflow has achieved the largest market share of around 8% of supply points as of March 2025, but it is still only the 5th largest retailer by market share.²⁹ Several retailers have exited the market since April 2017 – notably Yorkshire Water, Invicta (South East) and Affinity Water, which were acquired by either Business Stream or Castle Water – along with several new independent entrants which were granted a licence but failed to achieve material scale in terms of customer numbers.

Table 2 below shows the retailer market share by percentage of total supply point identifiers (SPIDs) since the market opened.

²⁷ WATER PLUS GROUP (UNITED UTILITIES AND SEVERN TRENT; WAVE (ANGLIAN WATER AND NORTHUMBRIAN WATER); YORKSHIRE WATER; PENNON WATER SERVICES (SOUTH WEST WATER AND SOUTH STAFFS WATER); WATER2BUSINESS (BRISTOL WATER AND WESSEX WATER); AFFINITY FOR BUSINESS; SES BUSINESS WATER.

²⁸ BUSINESS STREAM ACQUIRED SOUTHERN WATER’S NON-DOMESTIC CUSTOMERS IN 2016 AND SUBSEQUENTLY ACQUIRED YORKSHIRE WATER’S NON-DOMESTIC CUSTOMERS IN 2019. CASTLE WATER ACQUIRED CUSTOMERS FROM THAMES WATER AND PORTSMOUTH WATER IN 2016, AND SUBSEQUENTLY ACQUIRED CUSTOMERS FROM SOUTH EAST WATER CHOICE IN 2018 AND AFFINITY FOR BUSINESS WATER IN 2020.

²⁹ OFWAT (SEPTEMBER 2023) “BUSINESS RETAIL MARKET UPDATE 2022-23”, P.2. AVAILABLE AT [OFWAT.GOV.UK](https://www.ofwat.gov.uk).

Table 2: Retail market share by percentage of total supply points, 2017/18 to 2022/23 and 2025

Retailer	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2025 ^a (rank)
Water Plus Group	31.6	30.4	29.8	29.2	28.5	27.7	25.2 (1)
Castle Water	22.5	21.7	21.9	21.1	20.5	19.6	19.0 (2)
Business Stream	5.6	5.8	15.4	15.4	15.3	15.3	15.3 (3)
Wave	15.4	15.6	16.1	15.9	15.5	15.2	15.1 (4)
Everflow	0.6	1.4	2.3	3.1	4.1	5.2	8.0 (5)
Water 2 business	5.1	5.1	5.4	5.8	6.3	6.6	7.2 (6)
Pennon Water Services	6.0	6.0	6.1	6.2	6.1	6.1	6.1 (7)
SES Business Water	1.0	1.4	1.6	1.6	1.6	1.5	1.2 ³⁰ (8)
Clear Business Water	0.1	0.5	0.7	0.7	0.7	1.0	1.2 (9)
All self-suppliers	0.2	0.3	0.6	0.7	0.8	0.9	0.9
Other independent retailers	0.0	0.1	0.2	0.3	0.6	0.6	0.8

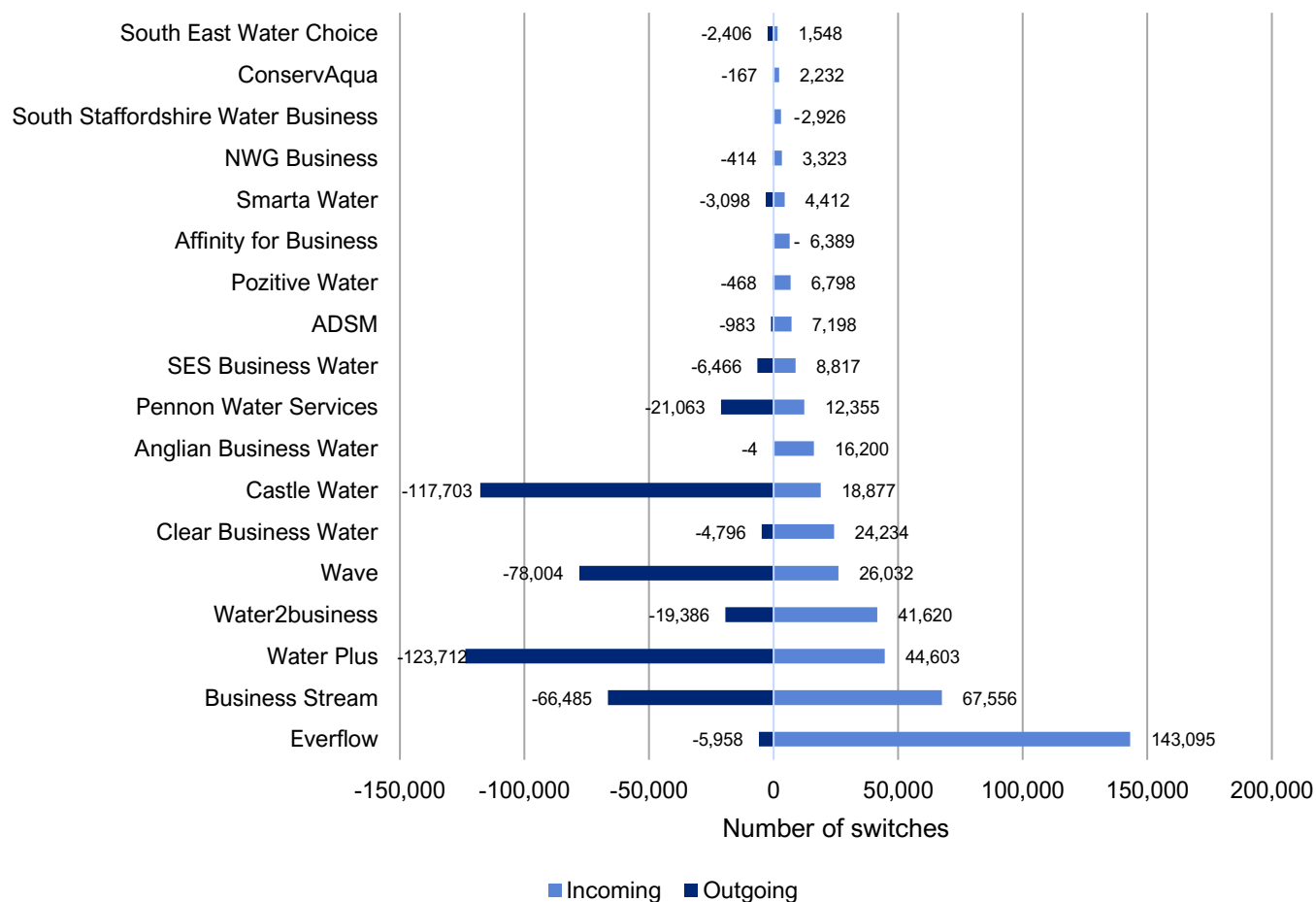
Source: Ofwat (2023) Business retail market update 2022-23, MOSL Supply Points dashboard

Notes: a) 2025 data, from the MOSL Supply Points dashboard, shows market shares as of March 2025

Table 2 shows that there has been little change over time in the relative ranking of the retailers by market share. Most of the growth in market share at the individual retailer level results from mergers and acquisitions, with the exception of Everflow which appears to have grown its share relatively ‘organically’, i.e. through customer switches (see Figure 1 below).

³⁰ SES BUSINESS WATER 1.19%, AND CLEAR BUSINESS WATER 1.17%.

Figure 1: Total number of incoming and outgoing switches by retailer, Group 1 supply points, April 2017 to February 2025



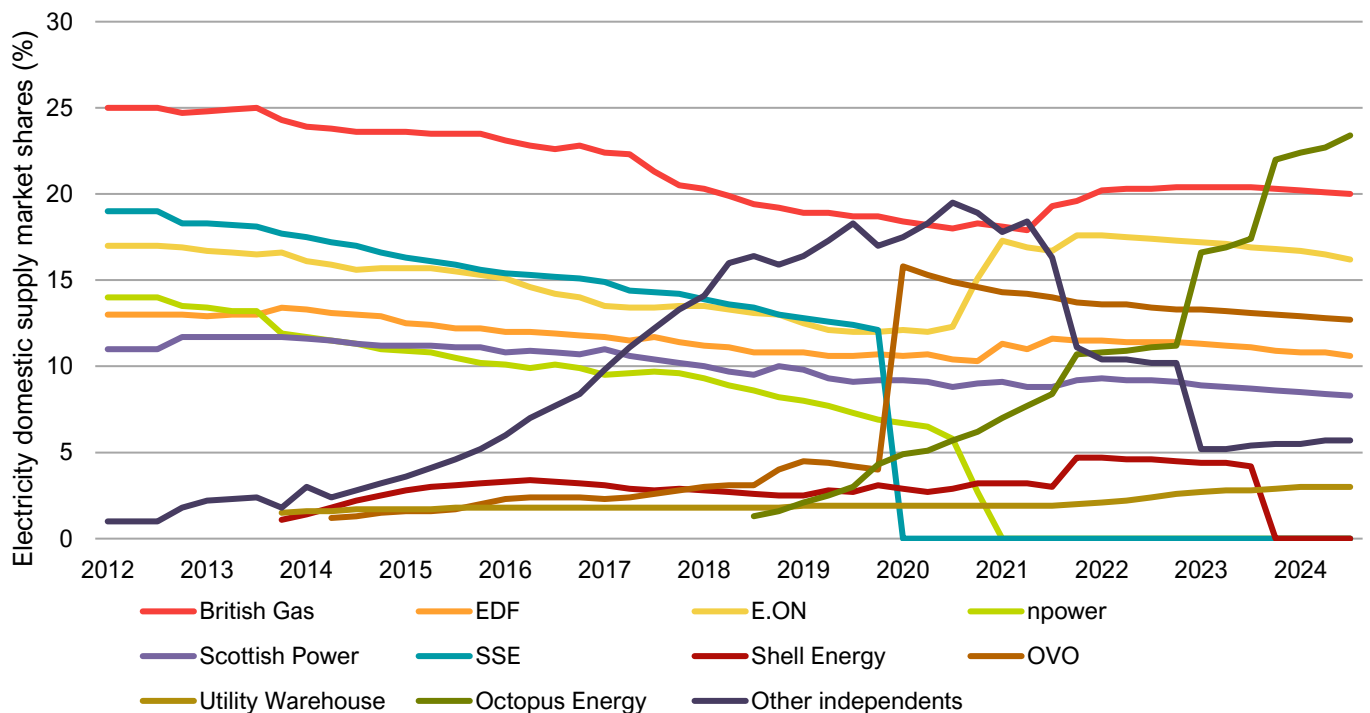
Source: MOSL switching dashboard

Overall, we find that 92% of total supply points are with one of the seven largest retailers that existed when the market opened. The market share of the new independent retailers is just 8% of total supply points, as at 2022/23.

By contrast, there have been more significant shifts in the market shares of electricity and gas domestic retailers in Great Britain since 2012, as shown in Figure 2 and Figure 3 below.³¹

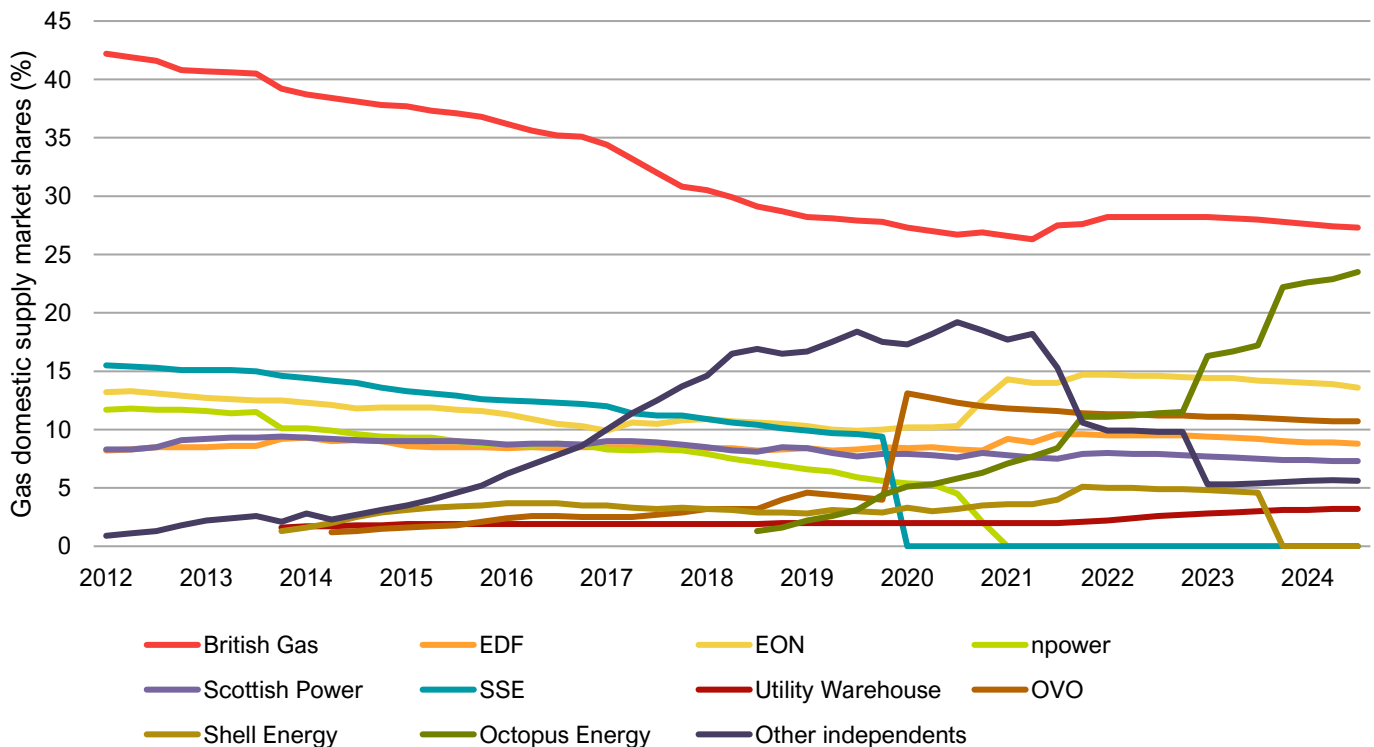
³¹ PUBLIC DATA ON NON-DOMESTIC MARKET SHARES IS NOT AVAILABLE. HOWEVER, SINCE SURVEY EVIDENCE SUGGESTS THAT NON-DOMESTIC ELECTRICITY AND GAS CUSTOMERS TEND TO BE MORE ENGAGED WITH THE MARKET THAN DOMESTIC CUSTOMERS, WE WOULD EXPECT TO FIND A SIMILAR TREND FOR THE NON-DOMESTIC MARKET.

Figure 2: Electricity domestic supply market shares by company, 2012 to 2024



Source: Ofgem (2025) Retail market indicators

Figure 3: Gas domestic supply market shares by company, 2012 to 2024



Source: Ofgem (2025) Retail market indicators

Prior to 2012, 99% of the electricity retail market and 98% of the gas retail market was held by the six largest energy suppliers: British Gas, EDF, E.ON, nPower, Scottish Power and SSE. By 2024, the new independent retailers had achieved a 45% share of the electricity market and

43% share of the gas market. Of those new independents, Octopus Energy is now the largest electricity retailer by market share (23.4%) and the second largest gas retailer (23.5%).³² Although much of the growth of the largest independent retailers – Octopus and Ovo in particular – has recently been driven by mergers and acquisitions of other retail businesses, and through the Supplier of Last Resort mechanism, they have also achieved substantial growth through organic means.

Overall, we observe that there has been new entry into the water retail market by independent retailers. However, with a couple of notable exceptions, the independent retailers have not been able to achieve significant growth through customer switching behaviour, relying instead on mergers and acquisitions of other water retailers.

2.2. SWITCHING RATES

In a functioning market, suppliers compete actively to gain market share through efficient pricing, better customer service, ancillary services, and other means of brand differentiation. That should translate into a (external) switching rate that is broadly similar to those seen in other retail markets for utilities services (e.g. electricity, gas, broadband), where non-domestic customers tend to exhibit higher external switching rates than domestic customers.

Whether business customers are switching their retailer should indicate whether customers are aware that they have a choice of retailer, and if so, whether they consider the benefit of switching greater than the cost of doing so.

2.2.1. Analysis of MOSL external switching rates

In this section, we investigate the level of switching in the market using data from Market Operator Services Limited (MOSL), the organisation that holds the central system of data for the business retail market. MOSL provides data on the number of successful switches on a monthly basis, broken down by consumption levels. MOSL data is based on supply points rather than customers.³³ It can be assumed that most customers would have at least two supply points (one for water and one for sewerage), with some larger customers with multiple premises having more.³⁴ For Group 1 customers, we would expect the majority of customers to have two supply points.

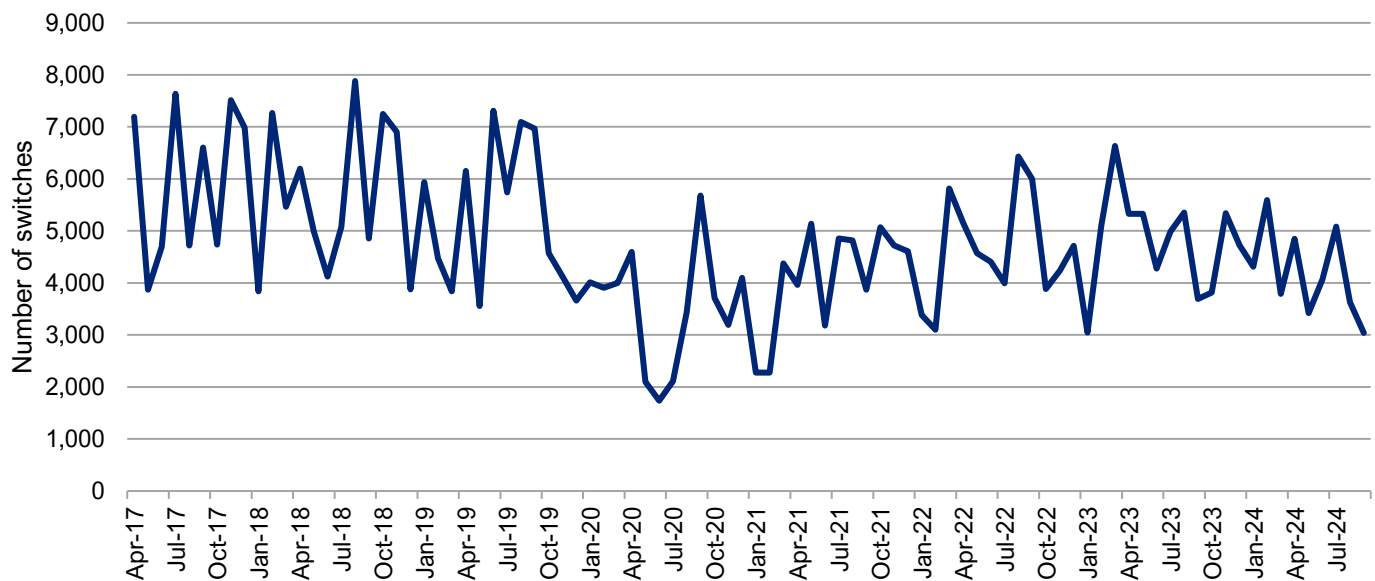
Figure 4 below shows the number of successful switches of Group 1 supply points that have taken place every month, between April 2017 and May 2024. Recent switching levels have been below those seen when the market opened in 2017. There was a marked drop in 2019 and 2020, which may have been explained by wider events, such as the Covid-19 pandemic. The number of switches subsequently recovered slightly but remained below the levels of the early years.

³² OFGEM (FEBRUARY 2025), 'RETAIL MARKET INDICATORS', AVAILABLE AT [OFGEM.GOV.UK](https://www.ofgem.gov.uk).

³³ SUPPLY POINTS ARE THE POINT OF CONNECTION FOR WATER OR SEWERAGE AT A PROPERTY.

³⁴ MOSL DATA SHOWS THAT IN TOTAL THERE ARE 186,000 SWITCHED WATER SUPPLY POINT AND 180,000 SWITCHED SEWERAGE SUPPLY POINTS FOR CONSUMPTION GROUP 1 BUSINESSES. WATER SUPPLY POINTS MAKE UP 55% OF THE TOTAL SWITCHED SUPPLY POINTS FOR GROUP 1 BUSINESSES.

Figure 4: Number of switches monthly (Group 1), 2017-2024

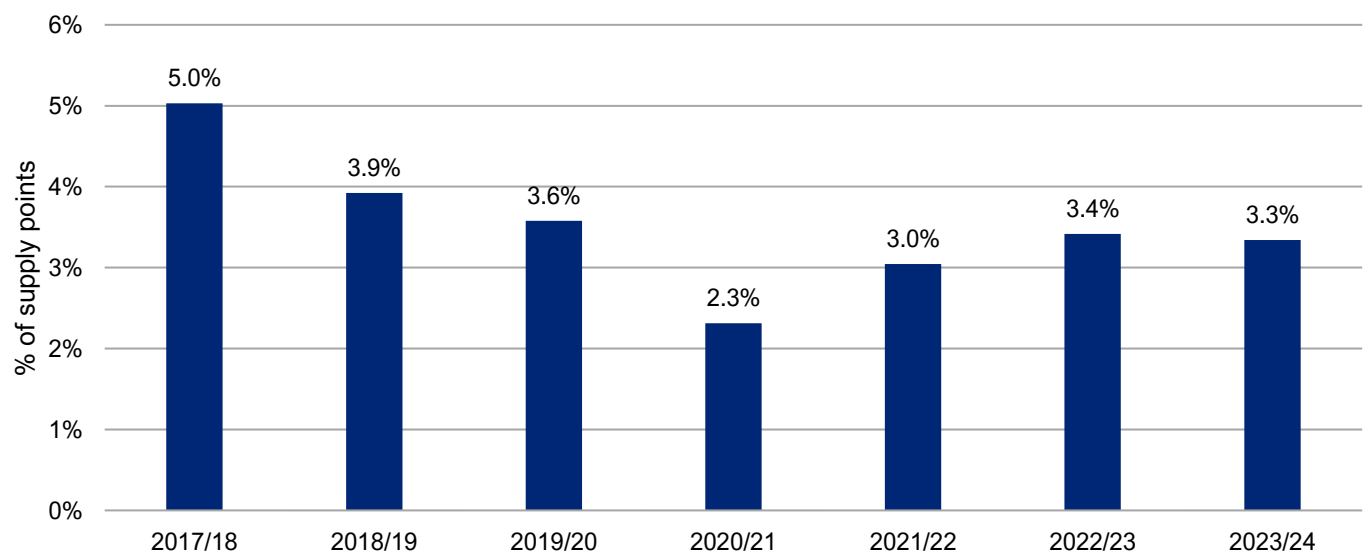


Source: MOSL, Switching dashboard

This pattern, with relatively high early switching levels, is perhaps not surprising: awareness and interest in the market may have been greater in the early years. Interestingly, Ofwat found in 2022 that the level of activity³⁵ among all business customers was higher among businesses that were already operating in 2017 (14%), compared to those who started operating after 2017 (4.1%).³⁶

Figure 5 shows the switches as a proportion of the total number of Group 1 supply points.

Figure 5: Number of switches as a proportion of annual average number of supply points (Group 1), 2018-2024



Source: MOSL, Switching and Supply Points dashboards

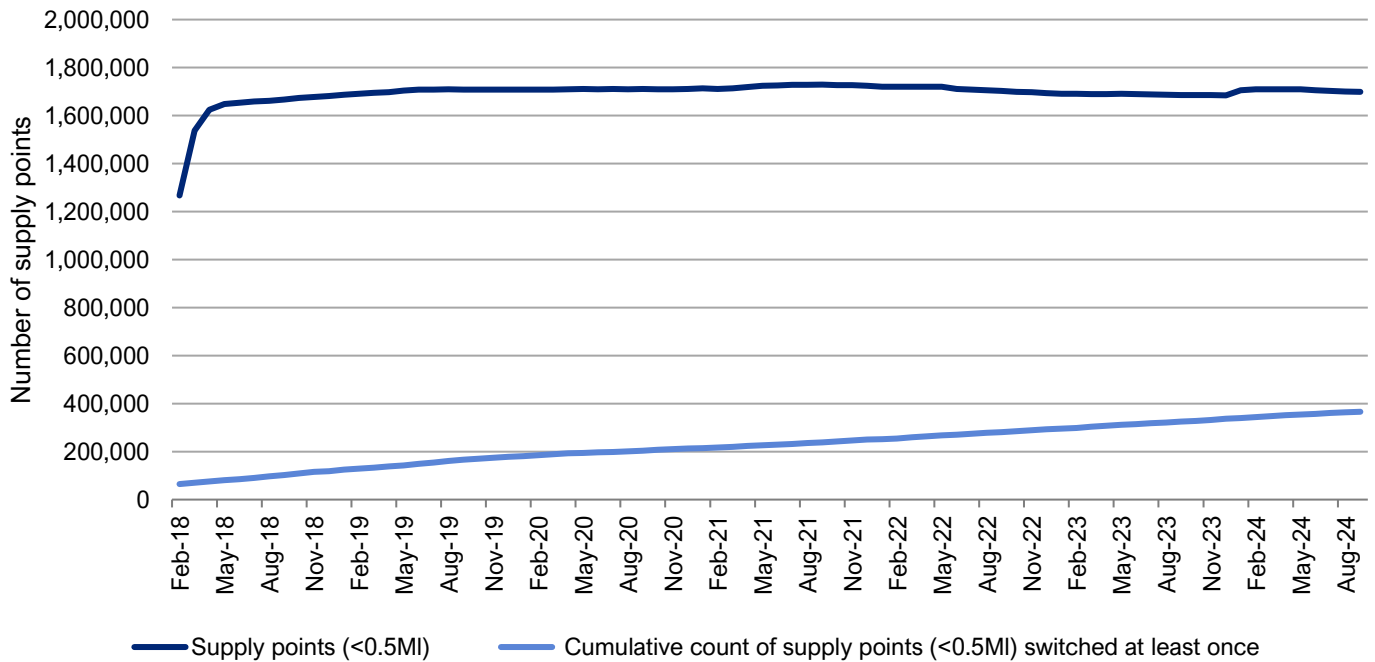
³⁵ OFWAT DEFINES ACTIVE CUSTOMERS AS THOSE WHO HAVE SWITCHED OR RE-NEGOTIATED, ACTIVELY CONSIDERING SWITCHING OR RE-NEGOTIATING, THOSE THAT HAVE TRIED TO SWITCH OR RE-NEGOTIATE, THOSE IN THE PROCESS OF SWITCHING, AND THOSE WHO HAD CONSIDERED SWITCHING OR RE-NEGOTIATING BUT HAD DECIDE NOT TO.

³⁶ OFWAT (SEPTEMBER 2022) 'FIVE YEARS OPEN FOR BUSINESS – TAKING STOCK', AVAILABLE AT [OFWAT.GOV.UK](https://www.ofwat.gov.uk/reports-and-publications/five-years-open-for-business-taking-stock/).

Even in the early years, the total switches for Group 1 customers constituted only 5% of supply points. MOSL data suggests that switching may have entered a relatively low and stable equilibrium, where approximately 3% of supply points are switched annually.

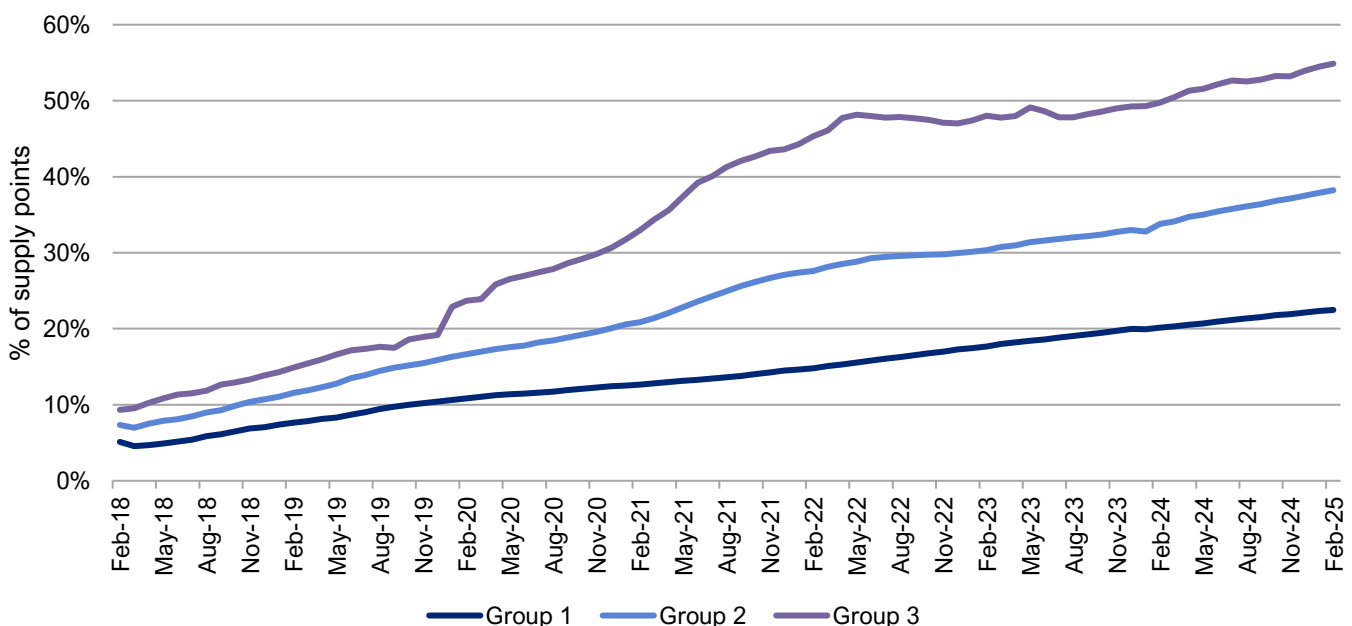
Figure 6 and Figure 7 below look at the cumulative number of supply points that have switched since early 2018.

Figure 6: Total number of supply points and supply points that have switched at least once (Group 1), 2018-2024



Source: MOSL, Switching and Supply Points dashboards

Figure 7: Supply points that have switched at least once as a proportion of total supply points, 2018-2024



Source: MOSL, Switching and Supply Points dashboards

As of February 2025, only 22% of Group 1 supply points had taken the opportunity to switch supplier (at least once) since the market opening. The vast majority of Group 1 customers in the market still have never switched. However, the trend in the number and proportion of Group 1 supply points that have switched at least once has been a steady increase over the years – a positive sign that switching is likely to continue.

The trends for different customer groups have diverged since market opening. The proportion of switched Group 1 supply points is now much lower than for Group 2 and Group 3 despite much closer levels of initial switching activity at market opening (5% for Group 1, 7% for Group 2, and 9% for Group 3). By February 2025 38% of Group 2 and 55% of Group 3 business supply points had taken the opportunity to switch supplier (at least once) since the market opening.

2.2.2. Other survey evidence on switching

We also consider results from other sources including Ofwat and CCW's annual Customer Insight Survey (CSI) and CCW's Testing the Waters Research. We use this additional data to consider what might be inferred about the underlying factors driving the levels of switching seen in MOSL data.

The surveys named above distinguish between categories of business customers based on the number of employees. We use the results for microbusinesses (defined as 0-9 employees by Ofwat and 1-10 by CCW) as a proxy for Group 1 customers, which aligns with Ofwat's approach.

Both Ofwat and CCW have surveyed businesses to seek reported activity on their actions to switch and renegotiate contracts. We draw out some of the relevant and interesting findings below, noting that the surveys were conducted at different points in time and therefore present a broad picture of activity in recent years (as opposed to e.g. over the last calendar year, 2024).

The survey data shows that:

- Microbusinesses report being less likely to switch retailer compared to larger businesses. In 2022, CCW found that 17% of microbusinesses had switched to a new retailer, compared to 28% of medium sized businesses (51-250 employees) and 26% of large businesses (250+ employees) (from businesses who are aware of the market).³⁷
- In 2024, CCW found that 23% of businesses aware of the retail market in England have switched to a new retail provider, statistically in line with 2022 and 2023 rates. Businesses with fewer than 250 employees are significantly less likely to have switched (1-10, 32%; 11-50, 30%; 51-250, 33%) than businesses with more than 250 employees (47%).³⁸

We use these results to support the evidence from MOSL's switching data, showing that users with low consumption volumes are less likely to switch than users with larger consumption requirements. However, we note that the CCW survey implies a slightly higher rate of switching activity amongst microbusinesses than in the MOSL Group 1 data (where only 17% of supply points had been switched at least once in January 2023), which may be due to the number of

³⁷ CCW (JANUARY 2022), 'TESTING THE WATERS 2022', AVAILABLE AT [CCW.ORG.UK](https://www.ccw.org.uk).

³⁸ CCW (NOVEMBER 2024), 'TESTING THE WATERS 2024', AVAILABLE AT [CCW.ORG.UK](https://www.ccw.org.uk).

responses to specific questions in the CCW survey and a risk that businesses who are motivated to respond to the survey are also on average more likely to be engaged in the market. For that reason, we place greater emphasis on the analysis of MOSL's switching data.

2.2.3. Renegotiation rates

On renegotiation, Ofwat's 'Five Years Open for Business' survey results indicated that 2.8% of microbusinesses had renegotiated their contract during the year 2021/22.³⁹ CCW's 'Testing the Waters – 2022 Report' found that 7% had negotiated with their existing retailer for better price or service since the market opened, suggesting that microbusiness customers were gradually becoming more engaged with the market, albeit at a relatively slow pace.⁴⁰ CCW also found that renegotiation rates varied by customer size, with 12% of large businesses (250+ employees) having renegotiated and/or changed their water tariff.⁴¹

By 2024, CCW's 'Testing the Waters' report found that 10% of microbusiness had renegotiated. The results are in line with previous data from 2022 and 2023 and suggest continuing improvement in engagement. When combining the affirmative action of switching and/or renegotiating (32%) this is up significantly from 27% in 2022.⁴² However, the data still shows greater engagement levels amongst larger businesses: businesses with 51-250 employees are significantly more likely to have renegotiated (28%) than those with 1-10 employees (14%) and 11-50 employees (15%).

CCW's 2024 survey results also indicate that 32% of microbusinesses that were aware of the market had switched or renegotiated during the same year.⁴³ This figure does not align with the switching rates seen in MOSL's data (likely due to the sample size and relative levels of engagement amongst survey respondents) but we report it to demonstrate that awareness of the market appears to be a key issue in determining switching activity amongst Group 1 users.

Ofwat's 'Five Years Open for Business' review also found that only 9.8% of microbusinesses were active in 2021/22, compared to 7.7% and 8.4% in 2019/20 and 2020/21 respectively. Activity rates were higher for large businesses (23.4% of them having been active in 2021/22).⁴⁴

2.2.4. Key findings from switching evidence

Whether business customers are switching their retailer should indicate whether customers are aware that they have a choice of retailer, and if so, whether they consider the benefit of switching greater than the cost of doing so. Switching rates remain relatively low for Group 1 business supply points, and significantly lower than switching rates of Group 2 and Group 3 supply points. We see switching rates that are significantly lower than both the domestic and non-domestic energy markets (see the box below) where customers have been able to choose their energy supplier for over 25 years.

³⁹ OFWAT (SEPTEMBER 2022) 'FIVE YEARS OPEN FOR BUSINESS – TAKING STOCK', AVAILABLE AT [OFWAT.GOV.UK](https://www.ofwat.gov.uk).

⁴⁰ CCW (JANUARY 2022), 'TESTING THE WATERS 2022', AVAILABLE AT [CCW.ORG.UK](https://www.ccw.org.uk).

⁴¹ CCW (JANUARY 2022), 'TESTING THE WATERS 2022', AVAILABLE AT [CCW.ORG.UK](https://www.ccw.org.uk).

⁴² CCW (NOVEMBER 2024), 'TESTING THE WATERS 2024', AVAILABLE AT [CCW.ORG.UK](https://www.ccw.org.uk).

⁴³ CCW (NOVEMBER 2024), 'TESTING THE WATERS 2024', AVAILABLE AT [CCW.ORG.UK](https://www.ccw.org.uk).

⁴⁴ OFWAT (SEPTEMBER 2022) 'FIVE YEARS OPEN FOR BUSINESS – TAKING STOCK' AVAILABLE AT [OFWAT.GOV.UK](https://www.ofwat.gov.uk).

The evidence on Group 1 switching rates is consistent with the market largely failing to deliver more efficient pricing, better customer service, higher value-added services, or other means of brand differentiation. The remainder of the report explores evidence that may indicate which of these reasons may best account for the low switching rates observed by Group 1 consumers.

Comparison to the energy sector

In the non-domestic energy market, consumer research from 2023 suggests that around a quarter (26%) of businesses had switched energy supplier or contracts in the last year, although this was more common for small (41%) and medium-sized (45%) businesses.⁴⁵

Consumer research from 2024 suggests that a third (33%) of businesses reported to have switched energy supplier in the last year, an increase from 2023 (26%). Medium-sized businesses (58%) and large businesses (44%) were more likely to have reported switching supplier in the last year, compared to small businesses (34%) and sole traders and microbusinesses (33%).⁴⁶

2.3. AWARENESS OF THE MARKET

Two questions arise from the low switching rate: are customers aware that they have a choice of retailer, and if yes, why are they not taking advantage of the market? In this section we consider the first question and examine results from survey research on business customers' awareness of the market.

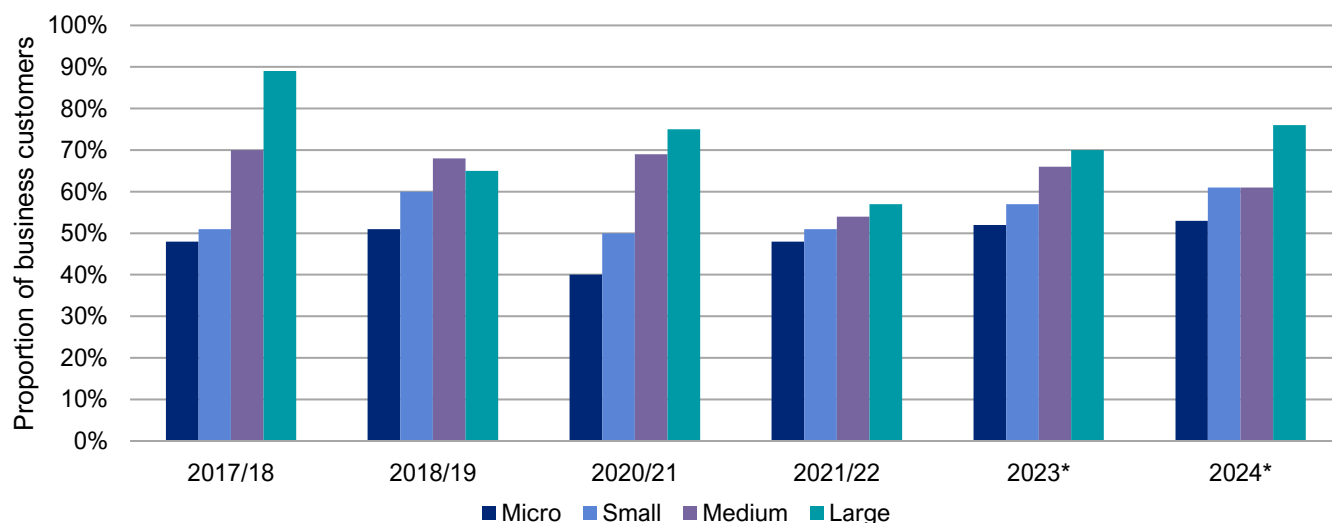
2.3.1. Survey findings on awareness

Figure 8 below presents results from Ofwat and CCW's CSI as well as CCW's research on the proportion of customers that have been aware of the market over the years since the market opened, broken down by business size.

⁴⁵ IFF RESEARCH (2024), 'BUSINESSES' EXPERIENCES OF THE ENERGY MARKET 2023: MAIN RESEARCH REPORT', AVAILABLE AT [OFGEM.GOV.UK](https://www.ofgem.gov.uk).

⁴⁶ IFF RESEARCH (2025), 'BUSINESSES' EXPERIENCES OF THE ENERGY MARKET 2024: MAIN RESEARCH REPORT', AVAILABLE AT [OFGEM.GOV.UK](https://www.ofgem.gov.uk).

Figure 8: Customer awareness of the market, 2017-2024



Source: Ofwat, *Five Years Open for Business – Taking Stock: Review of the Fifth Year of the Business Retail Water Market 2021-22*, CCW

Note: *Data for 2023 and 2024 comes from CCW

As seen in Figure 8 approximately half of microbusinesses were aware between 2017/18 and 2021/22 that business customers have been able to switch retailer or re-negotiate with their existing retailer, based on Ofwat and CCW's CSI research.⁴⁷ Awareness drops in 2020/21 to 40% among microbusinesses, and while there is an increase in the last year of the CSI survey to 48%, Ofwat cautions against drawing strong conclusions due to issues with the sample size.

Results from CCW research largely align with those of Ofwat: in 2022 and 2024, 52% and 53% of microbusinesses were aware of the market in England, respectively.^{48,49} CCW's results also show that in 2024, 33% of microbusinesses were unable to recall who their retailer was.

Both surveys indicate that microbusinesses have significantly lower levels of awareness compared to larger businesses, with the highest awareness among the largest businesses.

2.3.2. Key findings

It would seem reasonable to conclude that awareness of the market remains relatively low, given that the market has operated for several years. Low awareness is likely to be one of the factors contributing to the low switching activity in the market.

Based on survey research, it appears that around half of microbusinesses are aware that the market exists. Considering this together with the findings on the level of switching seen among microbusinesses, with 22% of Group 1 supply points having switched by September 2024 based on MOSL data, and assuming that each customer has an average of 2 supply points, it may be that as few as 20% of customers that are aware of the market have actually switched.

⁴⁷ OFWAT (SEPTEMBER 2022) 'FIVE YEARS OPEN FOR BUSINESS – TAKING STOCK', AVAILABLE AT [OFWAT.GOV.UK](https://www.ofwat.gov.uk).

⁴⁸ CCW (JANUARY 2022), 'TESTING THE WATERS 2022', AVAILABLE AT [CCW.ORG.UK](https://www.ccw.org.uk).

⁴⁹ CCW (NOVEMBER 2024), 'TESTING THE WATERS 2024', AVAILABLE AT [CCW.ORG.UK](https://www.ccw.org.uk).

2.4. REASONS FOR NOT SWITCHING

In this section we briefly consider the evidence on why awareness of the market appears insufficient to motivate a customer to switch to a different retailer or renegotiate with their existing retailer.

Ofwat and CCW have collected information through surveys on business customers' perceptions of the market. In Ofwat and CCW's 2019/20 CIS results, the key reason for microbusinesses who had considered switching/renegotiating but decided not to was the perceived effort involved (71%), with the low potential for savings also contributing (26%). When considering all customers, or solely large customers, the perceived effort remains the most important factor not to switch (58% and 65%, respectively).⁵⁰

Similarly, based on CCW's 2022 and 2024 results, microbusinesses were too busy to switch, did not have enough time, or did not consider it a priority (27% and 32%, in 2022 and 2024 respectively). Other factors that microbusinesses cited in the 2022 survey were being happy with their current provider (35%) or not considering that large differences in price or quality could be achieved (14%).^{51,52} In addition, the 2022 survey found that 55% of microbusinesses had taken no action to find out about the market or the choices that were available since the market opened.⁵³

It appears then that many business customers do not view switching to be worth the time and effort given the perceived small benefits. It should also be noted that just over third of microbusinesses were happy with their retailer in 2022; and so, not incentivised to search for alternatives. In the next section, we look at evidence on whether the perceptions on the potential benefits among microbusinesses are accurate.

2.5. FINANCIAL SAVINGS AND OTHER BENEFITS

As shown in the previous sections, the majority of Group 1 customers tend to be either unaware of the market or not actively participating in it. Many regard switching as onerous and not necessarily worth the effort. In this section, we investigate what level of price savings business customers would require to view switching worthwhile, and the level of price savings that might actually be achievable in the market.

We first consider the bill reductions that microbusinesses deemed necessary in order to switch based on survey research. We then look at the financial savings that Group 1 customers might be able to achieve by switching to another retailer, by using Ofwat's research on price savings, as well as the reported reductions seen by microbusinesses following a switch using survey data from CCW and Ofwat. We also briefly look at whether customers have received better service

⁵⁰ OFWAT AND CCW (2020), 'NON-HOUSEHOLD CUSTOMER RESEARCH: CUSTOMER INSIGHT SURVEY 2020', AVAILABLE AT [CCW.ORG.UK](https://www.ccw.org.uk).

⁵¹ CCW (JANUARY 2022), 'TESTING THE WATERS 2022', AVAILABLE AT [CCW.ORG.UK](https://www.ccw.org.uk).

⁵² CCW (NOVEMBER 2024), 'TESTING THE WATERS 2024', AVAILABLE AT [CCW.ORG.UK](https://www.ccw.org.uk).

⁵³ CCW (JANUARY 2022), 'TESTING THE WATERS 2022', AVAILABLE AT [CCW.ORG.UK](https://www.ccw.org.uk).

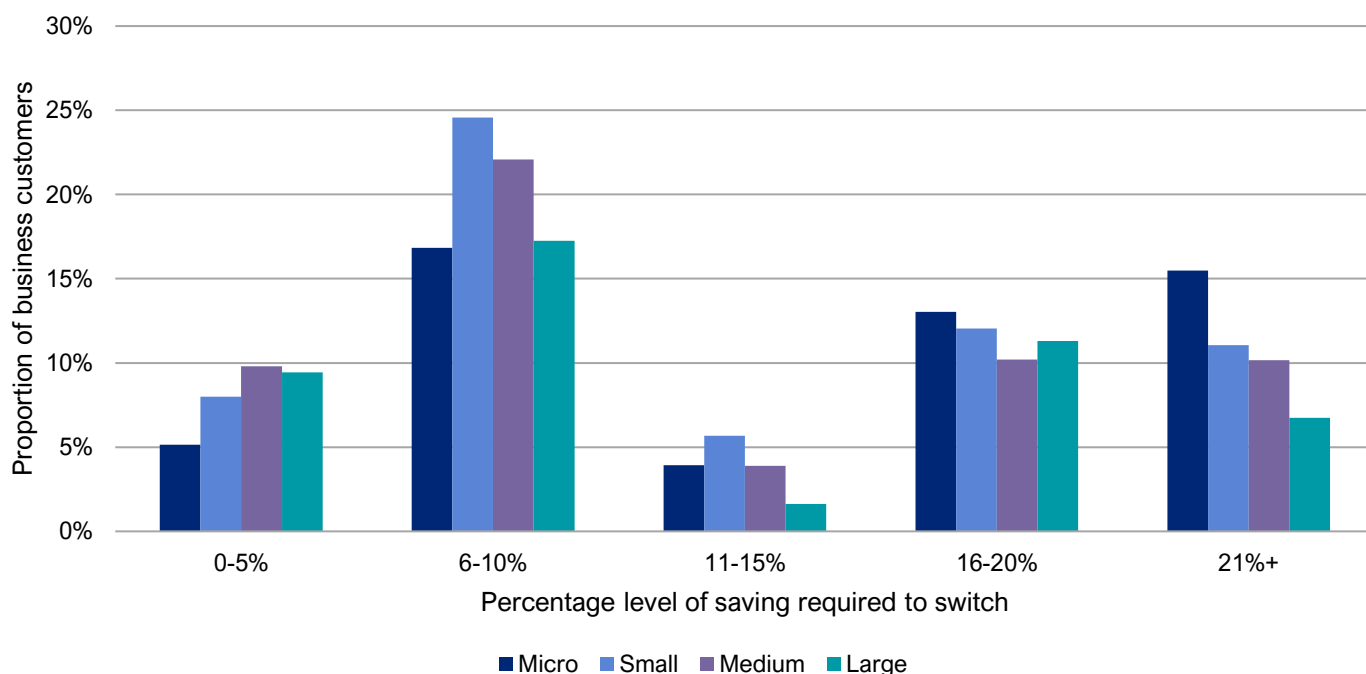
after switching or renegotiating. This should give us a better understanding of whether there are appropriate incentives in the market for customers to seek out an alternative retailer.

2.5.1. Required financial savings to switch

Despite the perception that switching might result in only low financial savings, a reduction in one's bill appears to be a key motivator to switch. In 2020, Ofwat and CCW's CSI results showed that of all microbusiness respondents who have switched retailer, 87% did so to get a lower price or bill, compared to 14% for a higher quality service, and 12% for better customer service.⁵⁴

CCW's research in 2022 asked businesses what level of savings would prompt them to switch retailers. The results are shown in Figure 9 below.

Figure 9: Level of savings required to prompt business customers to switch, 2022



Source: CCW⁵⁵

As can be seen in Figure 9, microbusinesses required relatively higher savings than other businesses to switch retailer. Larger proportions of microbusinesses required a saving of 16-20% of their bill or a saving in excess of 21% than small, medium and large businesses. Given that microbusinesses have lower bills, it is not surprising that a reduction below 10% of their bill may not incentivise many customers to switch. However, the most common response among microbusinesses was uncertainty about the required saving (29%).⁵⁶

⁵⁴ OFWAT (2020), NON-HOUSEHOLD CUSTOMER RESEARCH: CUSTOMER INSIGHT SURVEY 2020, AVAILABLE AT [CCW.ORG.UK](https://www.ccw.org.uk).

⁵⁵ CCW (JANUARY 2022), 'TESTING THE WATERS 2022', AVAILABLE AT [CCW.ORG.UK](https://www.ccw.org.uk).

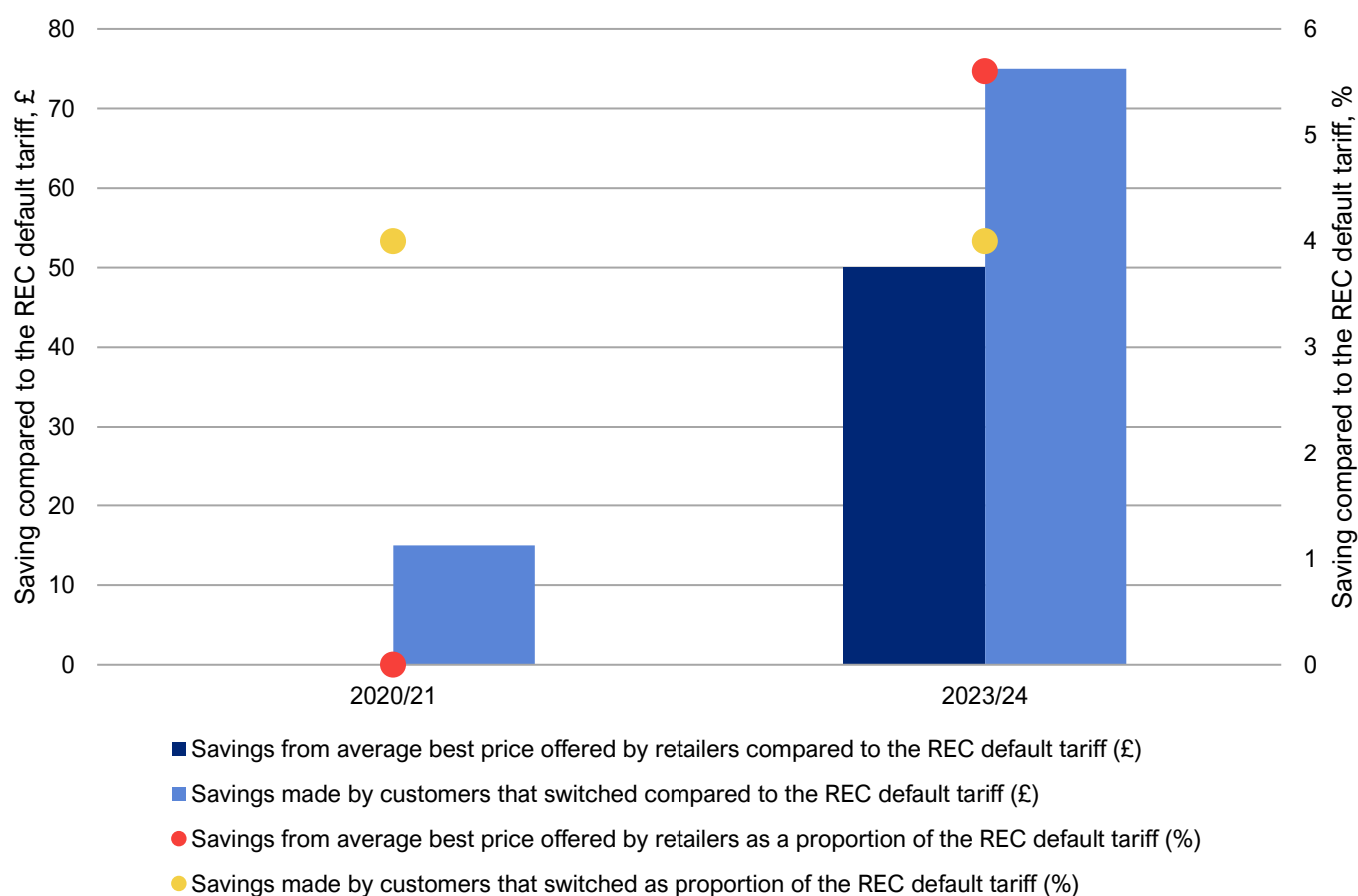
⁵⁶ CCW (JANUARY 2022), 'TESTING THE WATERS 2022'. AVAILABLE AT [CCW.ORG.UK](https://www.ccw.org.uk).

2.5.2. Potential for financial savings in the market

Ofwat has conducted research on the potential and actual price savings that inactive business customers could have achieved in the market in 2020/21 and 2023/24. By using hypothetical customers, Ofwat asked retailers to provide their best price offer should the said customers choose to switch to the retailer in question.⁵⁷ These price offers are then compared to the REC default tariff⁵⁸ to determine potential price savings.

Ofwat also requested actual pricing information on a subset of customers that had switched or renegotiated their contract. This information is also compared to the REC default tariffs to estimate 'actual' savings that the customers have achieved when compared to deemed contracts. Figure 10 below shows the results from this research for Group 1 customers in 2020/21 and 2023/24.

Figure 10: Price savings for Group 1 customers in 2020/21 and 2023/24



Source: Ofwat, *Business Retail Market 2023/24 Update*, October 2024

⁵⁷ HYPOTHETICAL CUSTOMERS ARE EXAMPLES OF POTENTIAL CUSTOMERS AND CONSUMPTION VOLUMES.

⁵⁸ TO PROTECT BUSINESS CUSTOMERS WHO HAVE NOT ENGAGED IN THE MARKET AND REMAIN ON 'DEEMED' CONTRACTS, THE RETAIL EXIT CODE (REC) SETS OUT REQUIREMENTS FOR PRICE AND NON-PRICE TERMS IN THE DEFAULT TARIFFS OFFERED TO THESE CUSTOMERS. THE PRICE PROTECTIONS FOR SMALLER CONSUMPTION BUSINESS CUSTOMERS (ANNUAL CONSUMPTION BELOW 0.5ML) TAKE THE FORM OF A PRICE CAP. A 'DEEMED' CONTRACT IS TERMS AND CONDITIONS APPLIED TO A CUSTOMER WHERE THE CUSTOMER IS RECEIVING WATER AND WASTEWATER SERVICES BUT NO CONTRACT HAS BEEN AGREED BETWEEN THE RETAILER AND THE CUSTOMERS. SOURCE: OFWAT.

As can be seen in Figure 10 above, price savings for Group 1 customers in 2020/21 were minimal. Retailers' best price offers indicated that they would not offer a discount to the REC default tariffs, while actual data on customer contracts shows a small saving (£15 per year). In 2023/24, savings had increased with a £50 and £75 annual savings based on the best price offer and actual contract data, respectively.⁵⁹

More significant savings were achievable for larger customers in absolute terms, with large customers (Group 3) being able to expect savings of £1,700 and £1,600 in 2020/21 and 2023/24 respectively, and medium customers £500 in both years, based on retailer best price offers. These, and the actual savings based on customer contracts, can be seen in Figure 16 and Figure 17 in Appendix A.

Based on Ofwat's research, in 2020/21 retailers stated that they would either charge the full amount that they can under the REC price caps, or that they would need to charge more than the default tariff to be incentivised to serve the hypothetical Group 1 customers. This view was supported by a study commissioned by the UK Water Retailer Council (representing water retailers) which found that the REC price caps for Group 1 customers were below the efficient level (i.e., the cost to serve), and retailers had been incurring greater costs in serving these customers than they were allowed to recover, with potentially significant effects on retailers' incentives to compete on quality.⁶⁰

Subsequently, Ofwat undertook a review of the price protections in the retail market in 2021-22. Following the review, Ofwat decided to increase the price caps applying to Group 1 customers on deemed contracts from April 2023. While Ofwat implemented a 2-year glide path, it expected many customers to be transitioned immediately.⁶¹ The increase in price savings for small customers aligns with the timing of the increase in the price cap, noting the caveat that Ofwat did not publish figures for savings available in 2021/22 and 2022/23.

Ofwat set the updated price caps to reflect reasonably efficient business retail costs to serve.⁶² Given that retailers had indicated that they were not recovering their costs to serve Group 1 customers, we would expect them to increase tariffs for those on deemed contracts to align with the higher cap. However, it may have also provided an opportunity for the most efficient retailers to distinguish themselves from other retailers by offering lower prices, below the cap, and gain new customers. By allowing retailers more headroom, competition for customers might have intensified.

In 2021, 79% of Group 1 customers were subject to the REC price cap, indicating the potentially large impact the increase in the cap might have had.⁶³ However, there is no evidence that this would have necessarily translated into a greater rate of switching or renegotiating.

⁵⁹ OFWAT (OCTOBER 2024) 'BUSINESS RETAIL MARKET 2023-24 UPDATE', AVAILABLE AT [OFWAT.GOV.UK](https://www.ofwat.gov.uk).

⁶⁰ ECONOMIC INSIGHT (APRIL 2021), 'NON-HOUSEHOLD WATER RETAIL MARKET STUDY', AVAILABLE AT [ECONOMIC-INSIGHT.COM](https://www.economic-insight.com).

⁶¹ OFWAT (2022), 'BUSINESS RETAIL MARKET 2021-22 REVIEW OF THE RETAIL EXIT CODE – DECISION, MAIN DOCUMENT', AVAILABLE AT [OFWAT.GOV.UK](https://www.ofwat.gov.uk).

⁶² OFWAT (2022), 'BUSINESS RETAIL MARKET 2021-22 REVIEW OF THE RETAIL EXIT CODE – DECISION: MAIN DOCUMENT', AVAILABLE AT [OFWAT.GOV.UK](https://www.ofwat.gov.uk).

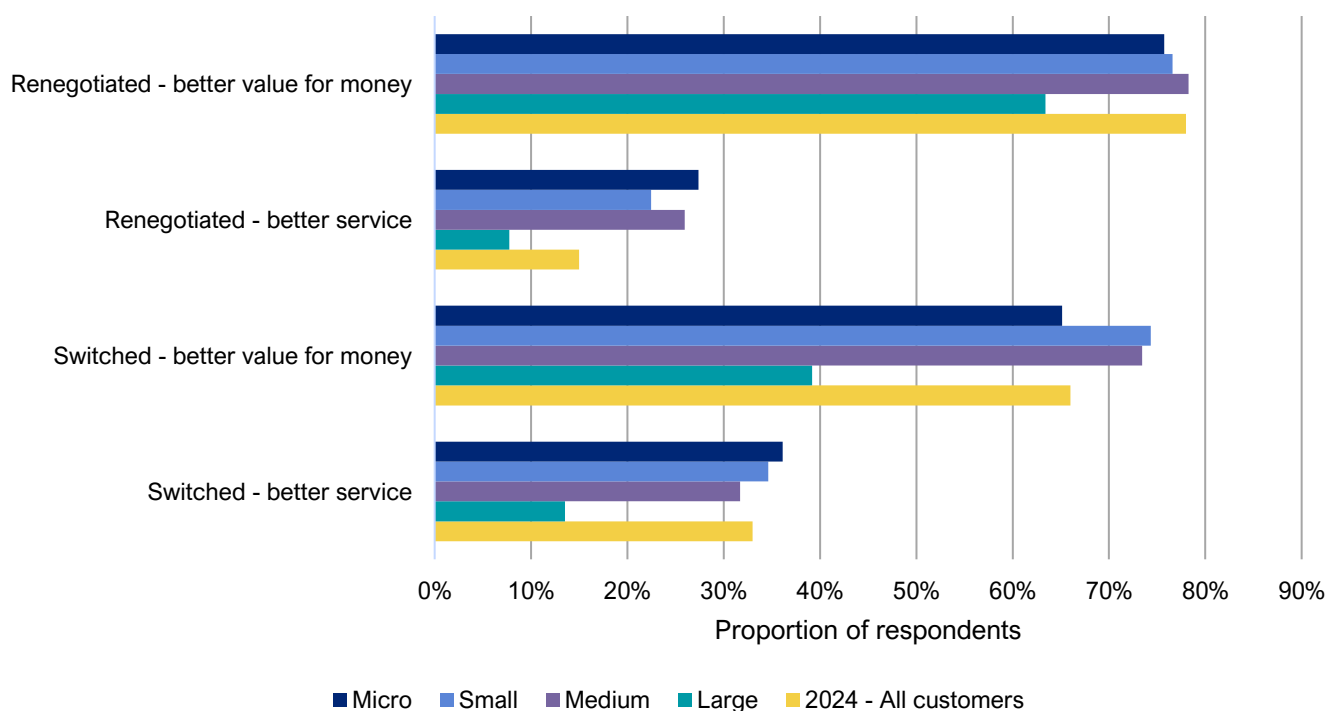
⁶³ OFWAT (2021), 'CONSULTATION: BUSINESS RETAIL MARKET: 2021-22 REVIEW OF THE RETAIL EXIT CODE', AVAILABLE AT [OFWAT.GOV.UK](https://www.ofwat.gov.uk).

2.5.3. Reported benefits by business customers

In contrast, survey research on customer experience offers a somewhat more positive picture of the benefits that small business customers have achieved. The 2020 CSI showed that of those who had switched or renegotiated with their existing retailer, 48% of microbusinesses recorded a bill reduction of between 1-10%, 7% recorded a saving of 16-20% and 6% a saving of 21-25%. 92% of microbusinesses also viewed that the benefits from switching met their expectations and 73% considered they were better off after switching.⁶⁴ Interestingly, the proportion of businesses which had their expectations met and reported being better off was higher for microbusinesses compared to the results for small, medium, and large businesses.

Receiving better service may also contribute to the positive experience of microbusinesses. Figure 13 below shows the proportion of business customers who received better value for money or better service as a result of switching or renegotiating their contract in 2022 and 2024. The data is by business size for the 2022 results and provided for all customers for 2024.

Figure 13: CCW 2022 (by business size) and 2024 (all customers) survey results on outcomes from switching and renegotiating



Source: CCW^{65,66,67}

As seen in Figure 13, among those microbusinesses that had switched, 36% considered that they had received better service and 65% better value for money. Among those that had

⁶⁴ OFWAT (2020), 'NON-HOUSEHOLD CUSTOMER RESEARCH: CUSTOMER INSIGHT SURVEY 2020', AVAILABLE AT [OFWAT.GOV.UK](https://www.ofwat.gov.uk/research-and-data/customer-insight-survey-2020/).

⁶⁵ CCW (JANUARY 2022), 'TESTING THE WATERS 2022', AVAILABLE AT [CCW.ORG.UK](https://www.ccw.org.uk/testing-the-waters-2022/).

⁶⁶ CCW (NOVEMBER 2024), 'TESTING THE WATERS 2024', AVAILABLE AT [CCW.ORG.UK](https://www.ccw.org.uk/testing-the-waters-2024/).

⁶⁷ THE RENEGOTIATED AND SWITCHED CATEGORIES SHOW THE PROPORTION OF CONSUMERS WHO HAD EITHER RENEGOTIATED OR SWITCHED ON A SEPARATE BASIS, I.E. THE TOTAL NUMBER OF RESPONDENTS IN EACH CATEGORY MAY VARY. GIVEN THE SURVEY ALLOWS CUSTOMERS TO MAKE SEVERAL RESPONSES, IT WOULD REQUIRE SPECULATION TO COMMENT ON THE PROPORTIONS THAT REPORTED NO POSITIVE OUTCOME.

renegotiated their contract, the figures were 27% and 76%, respectively.⁶⁸ The customers who are least satisfied with the outcomes from switching or renegotiating are large businesses.

According to CCW's 2024 research, there were no significant differences in improved service or value for money perceptions between businesses of different sizes, with the results for all customers largely aligning with those for microbusinesses in 2023.

2.5.4. Key findings

Survey results paint a picture of small business customers who are not motivated to go through the (perceived) effort of switching. But those who have switched appear to be relatively satisfied with their experience.

This might be explained by water and wastewater services being relatively inconsequential to small businesses, as long as they are receiving standard service. Potential bill reductions are a key motivator for small businesses to engage in the market, but Ofwat's price saving research demonstrates that the available savings for Group 1 customers are relatively low. Compared to large businesses, small businesses are unlikely to frequently engage with their retailer, and might benefit less from additional services, e.g., guidance on water efficiency, given their low consumption.

Comparison to the energy sector

Similar to the water sector, in the energy retail market customers cited price reductions as one of the reasons for switching. However, they also mentioned businesses' contract coming to an end and switching not being difficult to do as reasons. When asked how businesses chose their energy supplier, customers most commonly selected the cheapest option (54%). Typically, businesses who switched suppliers found the process easy, although 20% reported some level of difficulty.

In 2023, 24% of total businesses (compared to 16% in 2022) switched because they were offered a lower price. This suggests that price savings are possible through switching, but data for microbusinesses specifically is not available to allow differentiation between consumer groups. Sole traders and microbusinesses spent a higher proportion of their business costs on gas⁶⁹. In 2024, this reduced to 14% of total businesses switching to get a better deal.

2.6. SATISFACTION LEVELS

As shown in the previous sections, it appears that Group 1 customers perceive there to not be substantial benefits to be derived from switching. In addition, the financial savings that Group 1 customers have been able to gain from switching have not been significant.

⁶⁸ CCW (JANUARY 2022), 'TESTING THE WATERS 2022', AVAILABLE AT [CCW.ORG.UK](https://www.ccw.org.uk).

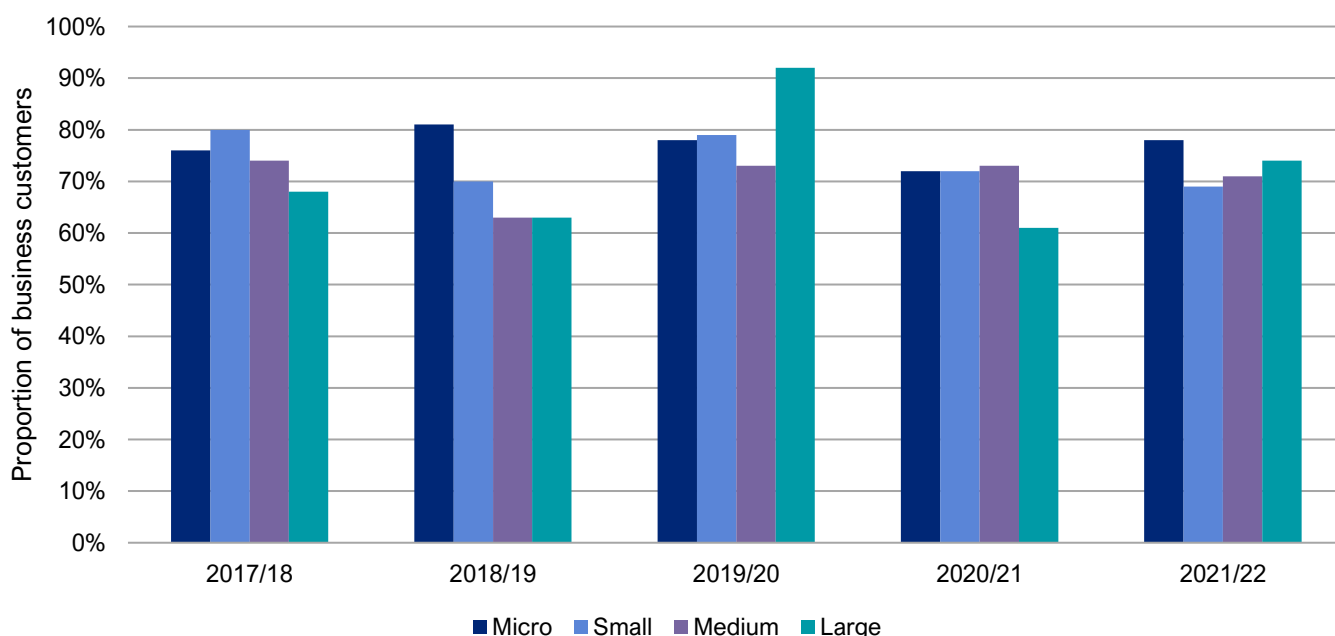
⁶⁹ IFF RESEARCH (2024), 'BUSINESSES' EXPERIENCES OF THE ENERGY MARKET 2023: MAIN RESEARCH REPORT', AVAILABLE AT [OFGEM.GOV.UK](https://www.ofgem.gov.uk).

Dissatisfaction with their current retailer could prompt some customers to switch, in addition to the pull factors considered in the previous sections. In this section, we examine customer satisfaction with water retailers, to determine if this is a factor which influences switching rates.

2.6.1. Survey findings on levels of satisfaction

Ofwat and CCW's CSI and CCW surveys have recorded satisfaction levels among business customers. Figure 14 and Figure 15 show the trend in satisfaction levels with water retailers among business customers.

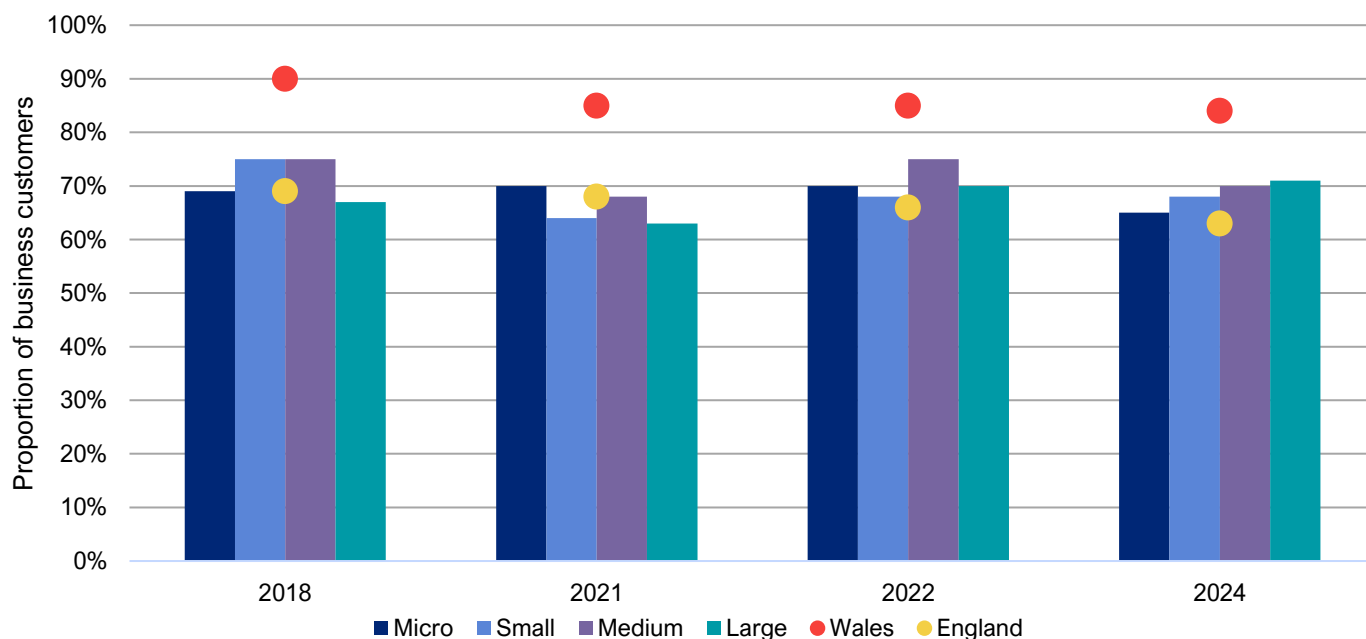
Figure 14: Proportion of business customers satisfied with current retailer by business size, Ofwat's survey research, 2017/18-2021/22



Source: CEPA analysis of Ofwat data⁷⁰

⁷⁰ OFWAT (SEPTEMBER 2022), 'FIVE YEARS OPEN FOR BUSINESS – TAKING STOCK', AVAILABLE AT [OFWAT.GOV.UK](https://www.ofwat.gov.uk/research-and-consultation/five-years-open-for-business-taking-stock/).

Figure 15: Proportion of business customers satisfied with current retailer by business size, CCW's survey research, 2018-2024



Source: CEPA analysis of CCW data⁷¹

Both surveys show a similar level of satisfaction among microbusinesses over the years, hovering at around 70-75% of customers being satisfied with their retailer, in England. Ofwat's research records slightly higher satisfaction, peaking at 81%.

Ofwat has noted that there are reliability issues with the survey due to low response rates in the last years of the survey. However, both surveys indicate that the majority of microbusinesses that provided responses are fairly satisfied with the retail services they have received.

Neither data source signals any clear trends between different customer sizes. Based on Ofwat's survey data, large businesses tend to be the least satisfied, excluding a peak in 2019/20. Given that large businesses are likely to have multiple premises, and potentially more frequent engagement with their retailer, they may also have greater expectations for customer service and additional services provided, such as water efficiency measures.

CCW's survey results, however, do not show significant differences in satisfaction based on customer size.

Reported satisfaction levels amongst businesses in Wales have been significantly higher than those recorded in England, based on CCW data.⁷² Figure 15 shows recorded satisfaction levels amongst businesses in Wales to consistently exceed that of businesses in England by between 15 to 20% on an annual basis. Although this data point is relevant, the survey responses are not sufficiently granular to determine why Welsh businesses are more satisfied with the service they receive and whether this is in some way linked to market structure.

⁷¹ CCW (NOVEMBER 2024), 'TESTING THE WATERS 2024', AVAILABLE AT [CCW.ORG.UK](https://ccw.org.uk).

⁷² CCW (2024), 'TESTING THE WATERS 2024', AVAILABLE AT [CCW.ORG.UK](https://ccw.org.uk).

2.6.2. Key findings

Most business customers appear to be relatively satisfied with the service they are receiving in the retail market, with around 70-75% of microbusinesses consistently reporting satisfaction with their retailer. Reported satisfaction levels amongst microbusinesses have, however, fallen according to CCW survey results. This is consistent with findings from the non-domestic energy market, as noted in the box below.

Comparison to the energy sector

In the non-domestic energy market, consumer research from 2024 suggests that nearly two-thirds of businesses (62%) were satisfied with the overall service provided by their energy supplier, consistent with satisfaction levels in 2023. However, dissatisfaction levels increased from 2023, and 17% of businesses were dissatisfied in 2024 compared to 13% of businesses in 2023.⁷³

2.7. COMPLAINTS

Based on the previous section, it appears that all business customers, including microbusinesses, have been relatively satisfied with their retailer, but CCW data suggests this has reduced between 2022 and 2024. This section focuses on the number of complaints from customers to consider whether this provides additional insight into the relative satisfaction and dissatisfaction between business customers and their experiences of the market.

2.7.1. Survey findings on complaints

Data on complaints at the level of granularity of customer size is scarce, and in this section, we rely on data from CCW and Ofwat on the number of complaints received by the two bodies and retailers. However, only the data provided by CCW is split by consumption or size of the business.

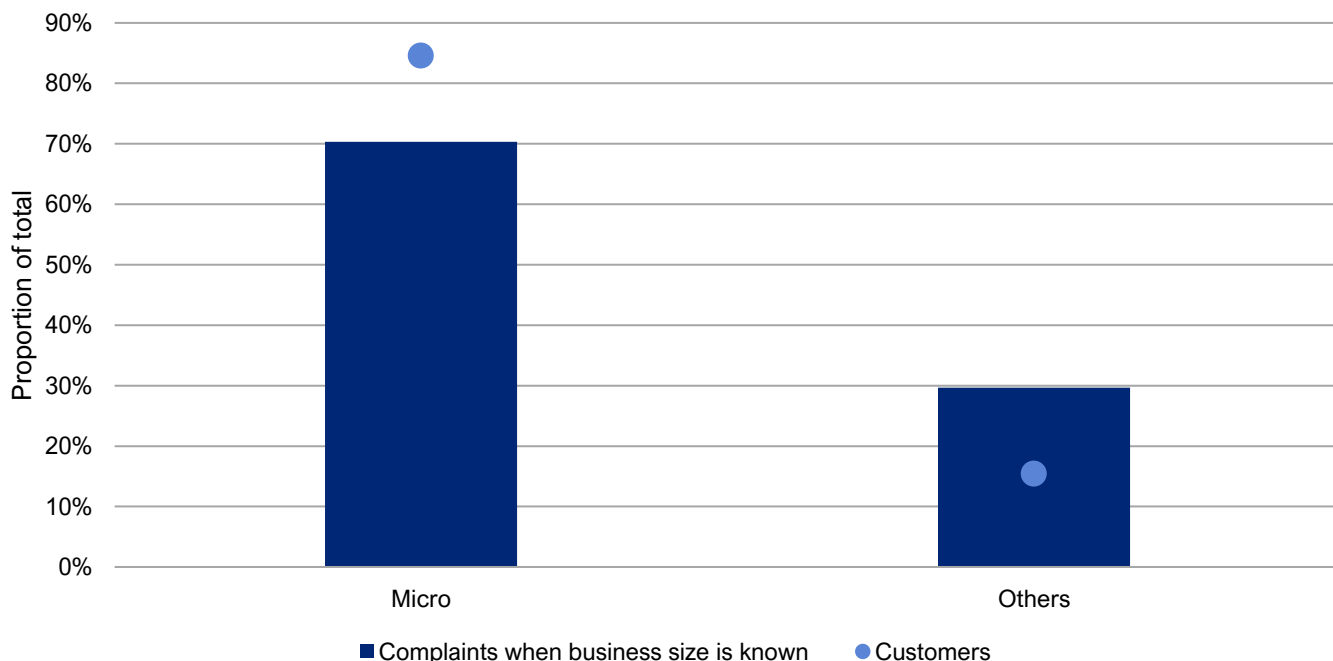
Given that the vast majority of businesses are categorised as microbusinesses in the English water retail market, it would be logical to expect to see microbusinesses well represented in complaints.

Figure 16 below shows the proportion of complaints (where information on business size was provided⁷⁴) by microbusinesses and other business customers. It also shows for comparison the proportion of all customers in each group.

⁷³ IFF RESEARCH (2025), 'BUSINESSES' EXPERIENCES OF THE ENERGY MARKET 2024: MAIN RESEARCH REPORT', AVAILABLE AT [OFFGEM.GOV.UK](https://www.ofgem.gov.uk).

⁷⁴ For 69% of the complaints that CCW received in 2023/24, the business making the complaint did not provide information on business size.

Figure 16: Proportion of complaints received by CCW from microbusinesses and others (SMEs and large businesses), compared to the proportion these customers make of total customers, 2023/24



Source: CCW

In 2023/24 70% of those who raised a complaint and informed CCW of their business size were microbusinesses, while microbusinesses account for ~85% of the market. Similarly, in 2021/22, 67% of those complaints for which information on business size is known were from microbusinesses.⁷⁵

Based on available data on complaints, it could be inferred microbusinesses are slightly less likely to report their size or file complaints compared to larger businesses. This analysis cannot be considered definitive, however, as the majority of complaints do not record the size of the business concerned.

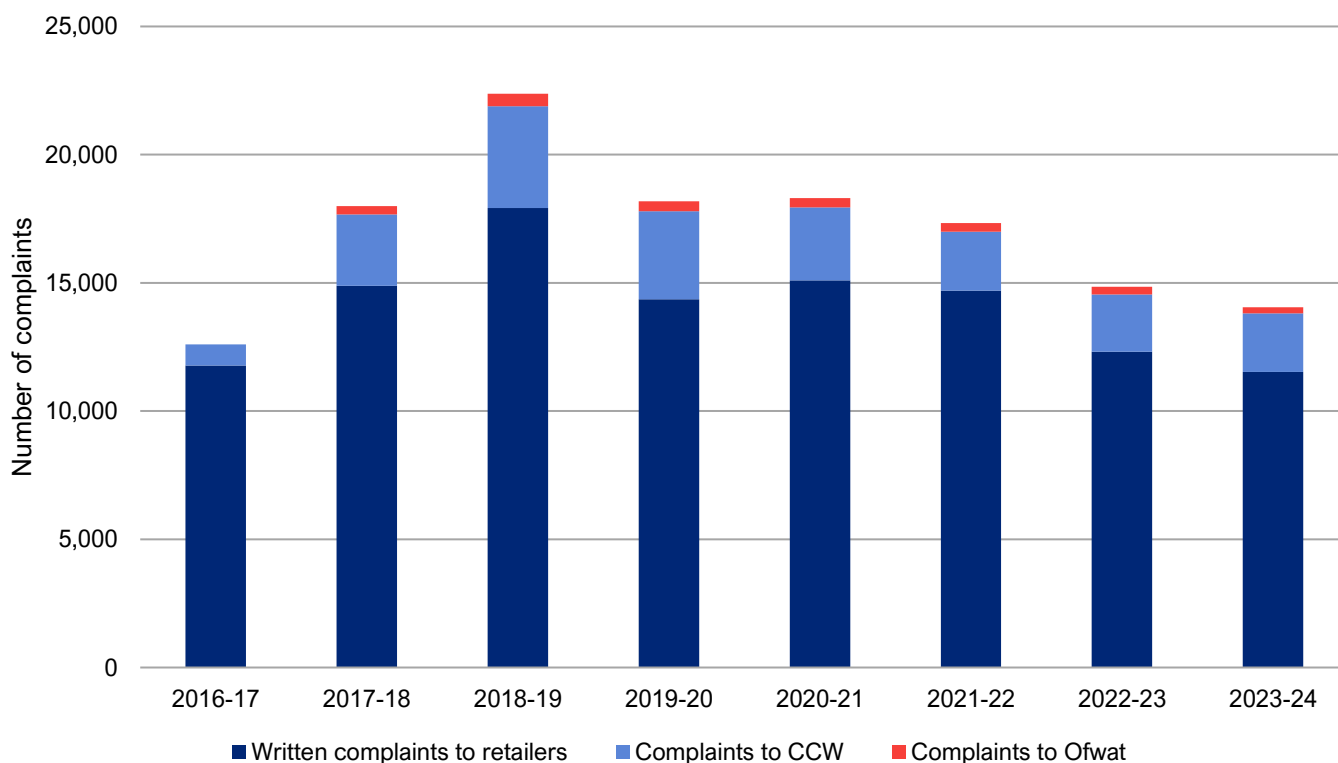
Based on survey results, too, it does not appear either that microbusinesses would disproportionately submit complaints. In 2024, larger businesses were significantly more likely to have contacted their retail supplier with an enquiry than microbusinesses (27% versus 12%). When asked if the customer had contacted their retailer with a complaint, 7% of large businesses, 8% medium sized businesses, 4% of small business and 8% of microbusinesses had done so.⁷⁶

Figure 17 below shows the numbers of complaints received by retailers according to CCW and Ofwat data.

⁷⁵ DATA PROVIDED BY CCW.

⁷⁶ CCW (NOVEMBER 2024), 'TESTING THE WATERS 2024', AVAILABLE AT [CCW.ORG.UK](https://www.ccw.org.uk).

Figure 17: Complaints received by retailers, CCW and Ofwat



Source: Ofwat⁷⁷

Notes: The time series is only available for written complaints to retailers, not for all complaints received by retailers via all contact channels.

In addition to the information in Figure 17, there were 20,744 complaints to retailers from business customers in 2023/24 across all contact channels.^{78,79} The total number of complaints to retailers, CCW and Ofwat show a downward trend, after an initial spike when the market opened.

2.7.2. Key findings

On the whole, it appears that business customers' experiences of the market have improved recently. The findings on complaints in the water retail market are comparable to that of the non-domestic energy market, as shown in the box below. Complaints directly to CCW from businesses, however, are significantly higher than the levels prior to the marking opening.⁸⁰

In order to gain a fuller understanding of the level of complaints by Group 1 customers in the market, we recommend that data collection and reporting for complaints is improved. In particular, it would be beneficial to consider business size to understand how the trend is changing with time, with a particular focus on Group 1 consumers.

⁷⁷ OFWAT (OCTOBER 2024), 'BUSINESS RETAIL MARKET 2023-24 UPDATE', AVAILABLE AT [OFWAT.GOV.UK](https://www.ofwat.gov.uk).

⁷⁸ CCW, 'BUSINESS CUSTOMER COMPLAINTS: 2023-24', AVAILABLE AT [CCW.ORG.UK](https://www.ccw.org.uk).

⁷⁹ OFWAT RECEIVED ONLY 239 COMPLAINTS IN 2023/24. SOURCE: OFWAT (OCTOBER 2024), 'BUSINESS RETAIL MARKET 2023-24 UPDATE', AVAILABLE AT [OFWAT.GOV.UK](https://www.ofwat.gov.uk).

⁸⁰ DATA PROVIDED BY CCW.

Comparison to the energy sector

Survey results in the non-domestic energy market show that for many businesses, dissatisfaction with suppliers had resulted in a complaint; just over one in ten (12%) of all businesses had made a complaint to their energy supplier in 2023.

Consumer research from 2024 suggests that nearly a quarter of businesses (23%) reported raising a complaint with their energy supplier in the previous 12-month period, with the most common reason reported for making a complaint being billing issues (52%), which is a significant increase compared to 2023 (23%).⁸¹

2.8. OTHER RELEVANT EVIDENCE

2.8.1. Innovation

In a well-functioning competitive market, improvements in services and outcomes for consumers would be expected through developments in innovation. Water retailers could use innovation to improve customer service, realise efficiencies, and meet environmental challenges.

Whilst other water retailers offer value added services, one retailer, Everflow, entered the market in 2017 with a specific stated intention of spreading innovation. It continues to emphasise the importance of innovation, particularly for smaller businesses:

“Over the next 12 months, we will continue to enhance our tech capabilities to boost the flexibility and responsiveness of our services, delivering on our mission to make life simpler for our customers. Our tech development is also designed to support our multi-utility growth and will enable us to offer a package of services to our SME customer base to save time and money.”⁸²

It also offered the first 100% carbon offset water supply service.

Everflow has since grown its market share to currently the fifth largest in the business retail market, and the largest of all new entrants to the market.

However, Economic Insight’s ‘non-household water retail market study’ in 2021 found the level of innovation in the market to be low, despite the introduction of competition, intended to foster improvements in this area.⁸³ We have found little evidence to demonstrate that levels of innovation in more recent years have improved, or that water retailers are prioritising innovation in the market, particularly for Group 1 customers.

It is not possible to draw clear conclusions from a limited evidence base. However, the limited evidence base in and of itself would be consistent with a conclusion that innovation in the sector has not improved significantly since 2021.

⁸¹ IFF RESEARCH (2025), ‘BUSINESSES’ EXPERIENCES OF THE ENERGY MARKET 2024: MAIN RESEARCH REPORT’, AVAILABLE AT [OFGEM.GOV.UK](https://www.ofgem.gov.uk).

⁸² OFWAT (OCTOBER 2024) ‘BUSINESS RETAIL MARKET 2023-24 UPDATE’, AVAILABLE AT [OFWAT.GOV.UK](https://www.ofwat.gov.uk).

⁸³ ECONOMIC INSIGHT (APRIL 2021), ‘NON-HOUSEHOLD WATER RETAIL MARKET STUDY’, AVAILABLE AT [ECONOMIC-INSIGHT.COM](https://www.economic-insight.com).

Comparison to the energy sector

In terms of innovation, the energy sector could be considered further advanced in comparison to water. When considering billing, the energy sector has seen improvements such as innovative tariffs i.e. EV or smart-enabled tariffs, the rise of V2G and electric vehicles charging technology, and other products. In general, the energy sector appears to be championing the use of innovation and there remain plenty of reasons for optimism in this sector, even when considering smaller businesses.

2.8.2. Data quality

Data quality issues have been a feature of the retail market with poor data on customers, consumption and assets hindering retailers' ability to effectively operate in the market.⁸⁴ Poor data on customers might have an impact on customer awareness and level of switching, at least by making the process more cumbersome. For those businesses where there are data quality issues, there may be additional challenges to switch as retailers lack information on consumers.

Ofwat noted in its review of the protections in the market in 2022, that poor quality data can deter customers from engaging in the market, with some customers potentially not paying correct charges and finding it difficult to compare offers from other retailers. As such, the data issues may contribute to a lack of appropriate price signals in the market.⁸⁵ Although it may be challenging to isolate the effects of poor data on the indicators we have been examining, data quality issues will inevitably affect the market.

Table 3 below shows the proportion of supply points with UPRN⁸⁶ and Valuation Office Agency (VOA)⁸⁷ data quality issues. Poor performance in UPRN data quality, which is used to identify customers, implies that retailers may not be accurately verifying eligible properties in the market and validating occupancy status. Issues with VOA data means that some properties will not have a score assigned by the VOA, which is also used to identify eligible customers.⁸⁸

While the issue appears to be worse among large customers in relative terms, a significant proportion of Group 1 customers were shown to have issues with both identifiers (11.37% for UPRN and 15.24% with VOA), as reported by MOSL.

⁸⁴ OFWAT (OCTOBER 2024), 'BUSINESS RETAIL MARKET 2023-24 UPDATE', AVAILABLE AT [OFWAT.GOV.UK](https://www.ofwat.gov.uk).

⁸⁵ OFWAT (DECEMBER 2022), 'BUSINESS RETAIL MARKET 2021-22 REVIEW OF THE RETAIL EXIT CODE – DECISION: MAIN DOCUMENT', AVAILABLE AT [OFWAT.GOV.UK](https://www.ofwat.gov.uk).

⁸⁶ UNIQUE PROPERTY REFERENCE NUMBER – A UNIQUE NUMBER IDENTIFIER FOR EVERY ADDRESSABLE LOCATION IN GB.

⁸⁷ VALUATION OFFICE AGENCY

⁸⁸ MOSL, HOLISTIC WHOLESALE TABLES. AVAILABLE AT [MOSL.CO.UK](https://www.mosl.co.uk).

Table 3: Proportion of water supply points with UPRN and VOA data quality issues, March 2025

Customer bands, MI / year	Consumer group	Supply points with UPRN issues	Supply points with VOA issues	Water supply points	% with UPRN issues	% with VOA issues
<0.5	Group 1	103,550	138,845	910,864	11.37	15.24
0.5-5	Group 2	27,529	39,897	197,610	13.93	20.19
5-50	Group 2	3,936	5,147	20,505	19.20	25.10
>50	Group 3	402	474	1,633	24.62	29.03
Negative	-	969	1,265	8,346	11.61	15.16
Zero	-	36,265	40,281	229,920	15.77	17.52

Source: MOSL⁸⁹

The data quality issues are not limited to issues with UPRN and VOA identifiers. MOSL has undertaken research on the extent of the data quality issues and found widespread problems with incorrectly determined eligibility, (i.e., some businesses may be paying domestic charges), supply points being matched to wrong addresses, and incorrect information with occupancy status and customer details.⁹⁰

Poor data quality will be reflected in retailers' performance in other areas. For example, as of March 2025, retailers had not read around 10% of meters for more than a year, a decrease from 15% in April 2022.⁹¹ MOSL also found that customers with supply points that were unmatched with address data were 40% more likely to never have had a meter read since the market opened.⁹²

Improving data quality requires work from both sides; wholesalers with regards to data on customer premises and retailers on customer data.

⁸⁹ MOSL DATA PROVIDED BY CCW.

⁹⁰ MOSL (2022), 'PROJECT TRANSFORMATION IN DATA ENRICHMENT (TIDE) – DATA QUALITY ASSESSMENT', AVAILABLE AT [MOSL.CO.UK](https://mosl.co.uk).

⁹¹ MOSL, METERING DASHBOARD. AVAILABLE AT [MOSL.CO.UK](https://mosl.co.uk).

⁹² OFWAT (2023), 'BUSINESS RETAIL MARKET UPDATE 2022-23', AVAILABLE AT [OFWAT.GOV.UK](https://ofwat.gov.uk).

3. CONCLUSIONS

Based on the data which we have synthesised in this review, we conclude that the opening of the water retail market to competition in 2017 has likely not realised the benefits for Group 1 customers that were anticipated at the time. It is self-evidently disappointing that, as of September 2024, only 22% of Group 1 customers had taken the opportunity to switch supplier since market opening. The evidence suggests that the financial benefits of switching are low in both relative and absolute terms. It might be argued that competition has helped to keep prices low for Group 1 customers and perhaps it has – although it is difficult to demonstrate this vis-à-vis a robust counterfactual – but there appears to be few perceived other benefits to switching supplier, such as improved customer service or water efficiency advice which can help customers to reduce their bills.

Conversely, the data does not suggest that Group 1 customers suffer systemic detriment from being in the water retail market either, at least not on a scale that is comparable to the CMA's findings in its *Energy Market Investigation*, prior to the introduction of the default tariff cap for domestic energy customers. We recognise that there are a large number of complaints against water retailers on fundamental issues such as correct billing, meter reading and poor customer service when customers do need to contact their retailer. In a minority of cases this may have led to significant hardships for the individual customers involved, but it is not possible to conclude that micro and small businesses are disproportionately affected by these issues.

Overall, we conclude that the water retail market for Group 1 customers is simply not a very 'dynamic' market. With the benefit of hindsight, this might have been a foreseeable outcome at the point of opening the market to competition, in that new entrants (suppliers) to the market will tend to focus on segments where revenue and market share is more readily obtainable. Given that over 60% of total market revenue is attributable to the largest 15% of consumers (by consumption band) it is perhaps not surprising that competition is more intense at that end of the market. It would be useful for further studies to investigate why the benefits of competition for Group 2 and 3 customers appear to have not 'trickled down' to Group 1 customers. One plausible explanation is that a substantial benefit of the water retail market comes from the rationalisation of supplier interactions (e.g. billing) over multiple supply points – particularly for business customers operating several physical sites – and water efficiency advice which is less valuable in absolute terms to a small consumer.

The situation appears to have marginally improved since CCW's Five-Year Review in March 2023 in that the percentage of supply points which have switched at least once continues to increase and the potential for price savings from switching away from the REC price cap has increased. There is some evidence of a downward trend in customer satisfaction for small and microbusinesses, although the difference in reported satisfaction levels to larger businesses (between 3% to 6% points) is limited and it is not dissimilar to satisfaction trends in the electricity and gas retail markets.

However, the ambition set out in CCW's Five-Year Review for an increase in Group 1 switching by 10% points by April 2025 has not been met. At the present switching rate it appears very

unlikely that CCW's target will be achieved by the end of 2025. In fact, if we make the simplifying but ultimately implausible assumption that all switching activity is conducted by consumers who have never switched before, then at the current switching rate (around 3–3.5% per year) it will take until at least 2032 for more than 50% of the market to have switched at least once (by which point the market will be 15 years old). Although it took over a decade for new entrants to the domestic electricity and gas retail markets to attract a substantial number of customers away from the largest incumbent energy suppliers, the annual switching rate in the electricity and gas markets prior to the introduction of the default tariff cap and the energy price crisis was typically between 15%-20%. This helped to encourage a large number of new entrants to the market, some of whom have driven product and customer service innovations, and the most engaged energy customers have realised substantial benefits in both financial and non-financial terms.

In our view, the data suggests that significant changes might be required to improve the dynamism of the water retail market for Group 1 customers. Assuming the market for Group 1 customers remains open, the data suggests that it would be beneficial for various stakeholders to make a concerted effort to improve customer awareness of the opportunity to switch supplier. It is a poor outcome that, 7 years after market opening, the survey data shows that just over 50% of Group 1 customers are aware of this opportunity, despite some minor improvements in this indicator in recent years. It is equally worrying that 78% of customers have not switched from the default REC tariff.

Although awareness of the market is only a partial factor in explaining such low switching activity, it seems plausible that a lack of awareness of the benefits of switching is a major factor which holds back the market. In our view, there may be significant benefit in CCW working together with Ofwat, other industry stakeholders and the professional bodies for customer service organisations, to develop a small business user awareness campaign centred around customer service performance league tables. Even if we speculate that the differences between suppliers on customer service outcomes are small, the perception that customers can achieve service quality improvements from switching could help to increase switching rates to a level that is more commensurate with what we would expect in a market where suppliers compete fiercely on the quality and reliability of their customer service offering.

Appendix A PRICE SAVINGS

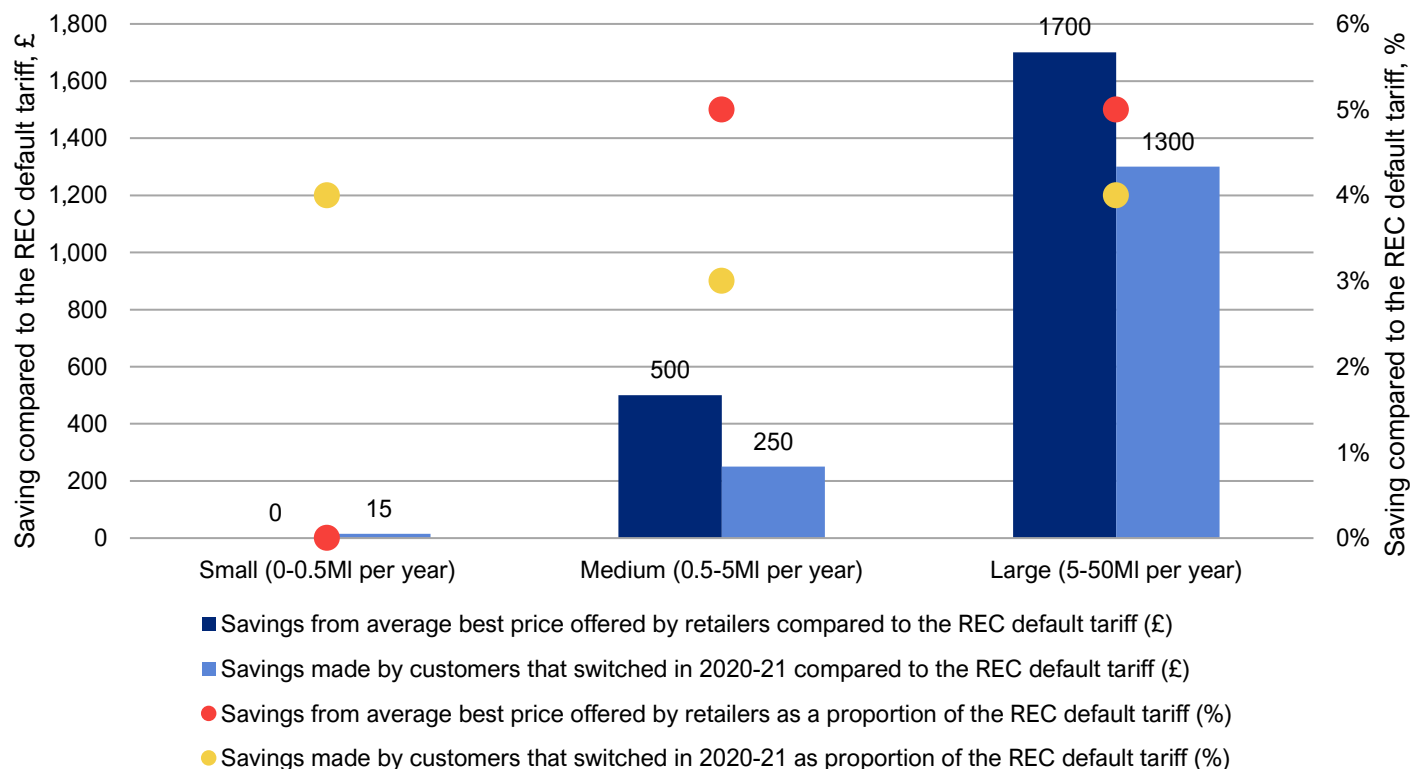
In Section 2.5.2., Figure 12 shows the annual price savings that are available to Group 1 customers on the REC default tariff by switching to another retailer. This is based on Ofwat's research in 2020/21 and 2023/24 which estimated the potential savings using two methods:

- By using hypothetical customers, Ofwat asked retailers to provide their best price offer should the said customers choose to switch to the retailer in question.⁹³
- Ofwat also requested actual pricing information on a subset of customers that had switched or renegotiated their contract.

These best price offers and actual pricing information were then compared to the REC default tariff⁹⁴ to determine potential price savings customers on deemed contracts might achieve by switching.

The price savings available to customers with larger consumption requirements (Groups 2 and 3) are larger by comparison, and these are shown in Figure 16 and Figure 17 below. Savings relative to the REC default tariff are shown in absolute (bars) and relative (dots) terms.

Figure 16: Price savings in 2020/21

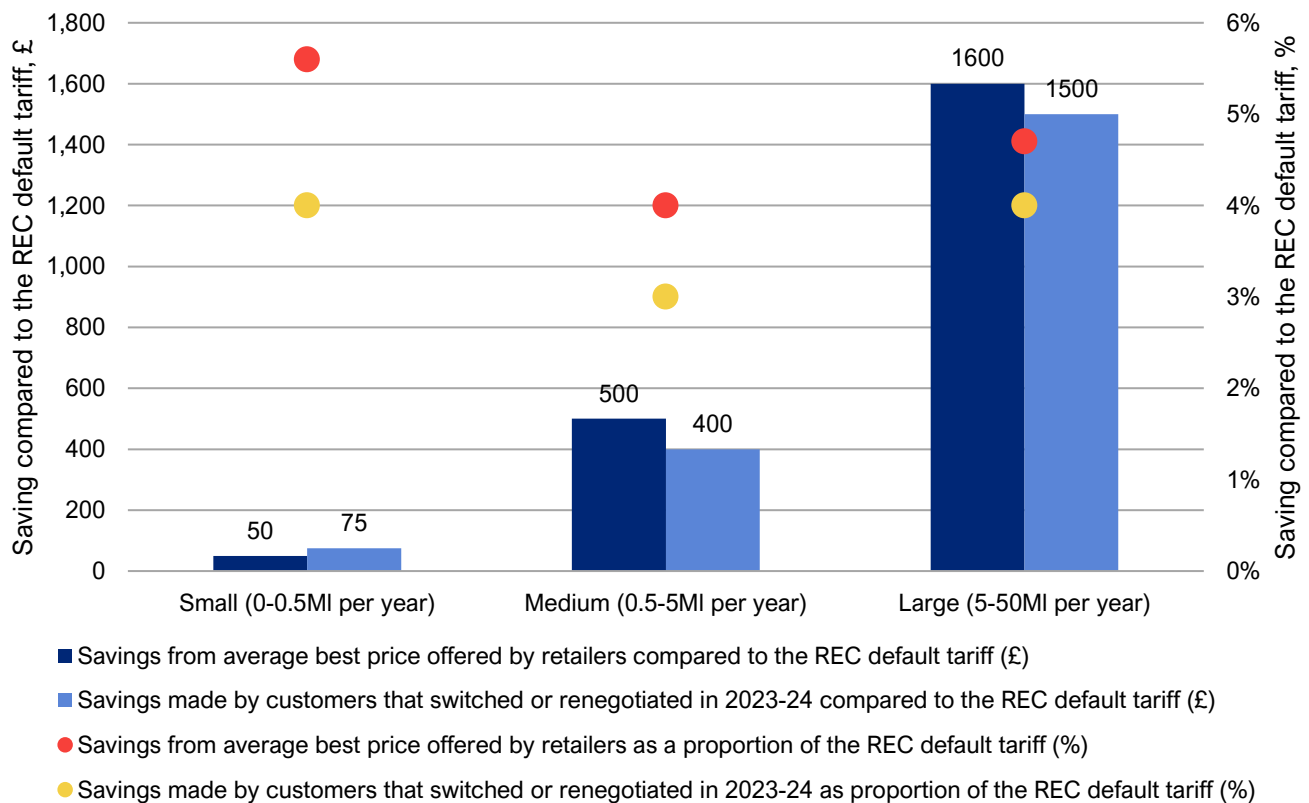


Source: Ofwat (October 2024), *Business Retail Market 2023/24 Update*.

⁹³ HYPOTHETICAL CUSTOMERS ARE EXAMPLES OF POTENTIAL CUSTOMERS AND CONSUMPTION VOLUMES.

⁹⁴ TO PROTECT BUSINESS CUSTOMERS WHO HAVE NOT ENGAGED IN THE MARKET AND REMAIN ON 'DEEMED' CONTRACTS, THE RETAIL EXIT CODE (REC) SETS OUT REQUIREMENTS FOR PRICE AND NON-PRICE TERMS IN THE DEFAULT TARIFFS OFFERED TO THESE CUSTOMERS. THE PRICE PROTECTIONS FOR SMALLER CONSUMPTION BUSINESS CUSTOMERS (ANNUAL CONSUMPTION BELOW 0.5ML) TAKE THE FORM OF A PRICE CAP. A 'DEEMED' CONTRACT IS TERMS AND CONDITIONS APPLIED TO A CUSTOMER WHERE THE CUSTOMER IS RECEIVING WATER AND WASTEWATER SERVICES BUT NO CONTRACT HAS BEEN AGREED BETWEEN THE RETAILER AND THE CUSTOMERS. SOURCE: OFWAT.

Figure 17: Price savings in 2023/24



Source: Ofwat (October 2024), *Business Retail Market 2023/24 Update*.



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