Business Stream Response

Water Industry Commission for Scotland (WICS) Draft Determination for the Strategic Review of Charges 2027-33

31 August 2026

Introduction

Business Stream welcomes the opportunity to respond to the Water Industry Commission for Scotland's (WICS) Draft Determination for the Strategic Review of Charges 2027-33 (SRC27). Our response is focused on the areas that are relevant to the non-household retail water market.

As Scotland's largest licensed provider serving non-household customers, we support a regulatory framework that enables sustainable investment in Scotland's water and wastewater infrastructure while maintaining a competitive retail market that delivers value, innovation and high-quality services for non-household customers.

We recognise the importance of the significant investment programme proposed for the 2027-33 period and welcome WICS' continued focus on ensuring that expenditure is supported by robust evidence and delivers measurable benefits and value for money for customers. We also welcome the focus on water efficiency and need to meet ambitious demand reduction targets.

We have taken comfort in the reassurance that has been provided that a full review to understand the implications of smart metering for wholesale charging arrangements and retail margins should be taken before any decisions are made around funding. And we are supportive of the decision to retain the charging-cap rather than moving to a revenue cap, to maintain a charging framework that is simple for customers to understand and which provides certainty on future charging levels.

We hope this response is helpful. If you have any questions or need further clarity on the points made below then please do let us know.

Retail Margins and Future Smart Metering Review

We welcome WICS' decision to undertake a detailed review of the impact of smart metering on wholesale charges and retail margins before any decisions are made. As recognised, the potential impacts of smart metering on the non-household market are not yet sufficiently evidenced, and we agree that any consideration of future changes should be informed by a comprehensive assessment of costs and benefits across the market.

Retailers are likely to incur additional costs during the transition to smart metering, including changes to systems, processes, customer communications and data management arrangements. These costs, alongside the timeframe for mass rollout, should be fully understood and appropriately reflected in any future regulatory decisions. Furthermore, the current retail margin arrangements continue to play an important role in supporting effective competition within the Scottish non-household market. Any future review should therefore consider not only the operational impact of smart metering but also the wider implications for customer outcomes and the competitive market

A collaborative and evidence-based review will help ensure that any future changes to wholesale charges, retail margins or market arrangements are transparent, proportionate and based on the actual impacts experienced across the market.

Delivering water efficiency and demand reduction targets

We are supportive of efforts to encourage customers to use water more efficiently and therefore welcome Scottish Water's proposed water demand reduction targets.

We recognise the significant environmental and resilience benefits that can be achieved through reductions in water consumption and improved demand management. Smart metering has the potential to provide greater visibility of consumption patterns, support earlier identification of leaks and enable more targeted water efficiency interventions.

We do believe it is important that any future review of wholesale charges, retail margins or market arrangements takes account of the consequences of successfully achieving these water efficiency and demand reduction objectives. Reductions in customer consumption may have implications for non-household revenues, cost recovery mechanisms and the overall structure of charging arrangements within the market. Future charging frameworks should therefore ensure that incentives remain aligned, competition remains effective and customers continue to receive value from the retail market while supporting broader water efficiency goals.

The successful delivery of Scottish Water's proposed water demand reduction targets will require continued collaboration between Scottish Water and Licensed Providers. While smart metering will provide important new tools and data, the achievement of forecast demand reductions will ultimately depend on customers receiving effective advice, support and engagement. Licensed Providers remain the primary relationship holder for non-household customers and are therefore uniquely placed to help customers understand their consumption, identify opportunities for efficiency improvements and implement behavioural and operational changes.

For this reason, we believe Licensed Providers should be fully involved in the development and delivery of future demand-reduction initiatives. Maximising the benefits of smart metering will require coordinated action across the market, with wholesalers and retailers working together to ensure customers receive a consistent and effective experience.

Retaining the charge-cap approach

We support WICS' decision to retain a charge-cap approach for the 2027-33 period and the recognition that the RV changes in 2029 and 2032 should be revenue-neutral.

The introduction of smart metering and the achievement of water demand reduction objectives will inevitably create uncertainty around future consumption levels. However, the impacts on customer behaviours, market processes, wholesale cost recovery and retailer activities remain uncertain and have not yet been fully evidenced. In these circumstances, we believe it would be premature to introduce a fundamental change to the charging framework before the consequences of smart metering are better understood.

Retaining a charge-cap approach also provides continuity and stability for customers and market participants during a period of significant change. It retains the link between customer consumption and charges, maintaining price signals that support efficient water use and helping customers realise the benefits of water efficiency initiatives.

We do however recognise Scottish Water's concern that lower levels of consumption could affect revenue recovery and believe this will need to be considered further. We would support WICS undertaking a collaborative review involving Scottish Water, Licensed Providers, the Central Market Agency and other stakeholders to address this issue and to consider if a mechanism needs to be introduced to re-align household and non-household revenue should we see a significant reduction in volumetric usage across the non-household sector.

Any future changes should be proportionate, evidence-based and designed to protect both customer interests and the long-term effectiveness of Scotland's competitive non-household retail market.

Building a robust evidence base for future market decisions

To ensure any future changes are proportionate and continue to support effective competition and deliver value for non-household customers, we would recommend that a robust evidence base is developed before considering amendments to wholesale charging arrangements, retail margins or wider market arrangements.

In our view, future analysis should explicitly consider:

- The costs currently incurred by Licensed Providers in delivering meter-reading and associated services.
- The activities and costs that would transfer to Scottish Water under a smart metering model.
- Any new costs that may arise for retailers following smart meter implementation.
- The benefits that smart metering may deliver to retailers, Scottish Water and customers.
- The impact of demand reduction on customer consumption, non-household revenues and market cost recovery.
- The overall impact on wholesale charges, retail margins and customer bills.
- The impact of any proposed changes on market competition, customer choice and retailer incentives to innovate.

A comprehensive assessment of these factors will help ensure that future regulatory decisions are evidence-based, proportionate and aligned with the long-term interests of Scotland's non-household customers.

Conclusion

We welcome WICS' decision to retain existing retail margin arrangements within the Draft Determination and supports its commitment to undertake a future review of the implications of smart metering before a decision is made around funding.

We believe that any future review should be collaborative, evidence-based and informed by the full costs and benefits arising from smart metering and water demand reduction. By considering impacts across the entire market and involving all relevant stakeholders, WICS can help ensure that any future changes support sustainable water use, effective competition and continued value for Scotland's non-household customers.

We look forward to continuing to engage with WICS and would welcome the opportunity to discuss any of the points outlined above.