

RD 15/00

**TO REGULATORY DIRECTORS OF ALL
WATER AND SEWERAGE COMPANIES AND
WATER ONLY COMPANIES**

13 June 2000

Dear Regulatory Director

APPROVAL OF CHARGES SCHEMES 2001-02: PROCESS AND TIMETABLE

1. Background

In RD 9/00 Ofwat sought views on the process followed in approving charges schemes for 2000-01 and invited comments from companies on possible changes to the process for 2001-02. At the same time Ofwat has consulted Customer Service Committees (CSCs) and has reviewed internally the processes that were followed for last year's approval round. The comments we received have been helpful and I am grateful for them.

Responses covering 24 of the 26 companies were received. As well as commenting on the process to be followed for 2001-02 companies also indicated tariff policy issues on which they would like to see additional guidance or clarification. The following paragraphs set out the process for 2001-02 that the Director wishes to follow, and a timetable for the key events that will mark the process.

2. Companies' concerns

Companies raised a number of concerns in their responses and these are set out below, together with the ways in which Ofwat will seek to meet these concerns in the process for 2001-02:

(i) Tariff policy issues

Companies identified a number of tariff policy issues in their responses. Some of these will be dealt with in the Consultation paper to be issued later this month, particularly in respect of the Secretary of State's guidance to the Director on charging matters. Companies will have opportunity to use the summer round of tariff meetings to discuss these and any other issues. Ofwat will set out the Director's conclusions on this consultation in mid-September and this response will also cover any other general policy issues where further clarification may be appropriate. Alternatively a supplementary RD letter may be issued in early September.

(ii) DETR Regulations in 2001-02

Companies in England were concerned that there may be further changes for 2001-02 in the regulations applied to vulnerable groups and to metering of household customers. DETR have now said that Ministers have no plans to amend the regulations for 2001-02. The regulations will, however, be reviewed by the DETR in summer 2001 in time for any necessary changes to be made for the following charging year.

(iii) Draft Principal Statements – September 2000

Most companies supported the idea of submitting draft Principal Statements alongside draft charges schemes in early October 2000. Some companies were concerned about the extra burden of work involved and the need for such draft statements to be based on an estimated November RPI figure and very early company estimates of take-up numbers for new tariffs during 2000-01.

On balance, however, Ofwat considers that the submission of draft Principal Statements should be helpful both to the companies and to Ofwat in exposing and allowing discussion of any proposed changes in tariff structure. Additional Information (to Principal Statements) will not be required.

(iv) Arrangements with the CSCs

Most companies considered that their arrangements for discussing draft charges schemes with the CSCs worked well. Some companies however considered that they could not be expected to discuss sensitive issues within their draft charges schemes without a formal commitment by the CSCs to confidentiality. The Director, however, does not consider that companies' draft charges schemes (submitted to Ofwat in early October) should be treated by the CSCs as confidential, other than proposals for large user tariffs. If companies wish their proposals for large user tariffs to be treated as confidential Ofwat would expect CSCs to take appropriate steps to meet such requests.

(v) Timing of Ofwat's comments on draft charges schemes – December 2000

A number of companies said that not receiving Ofwat's comments last year before 15 December placed them under unreasonable pressure. This was particularly so in the light of the need to submit final charges schemes and Principal Statements by 15 January. Ofwat recognises these concerns and is committed to bringing forward the date of these final letters to 8 December at the latest, and will aim for an earlier date.

(vi) Timing of Approval of final charges schemes – February 2001

Most companies were satisfied with the final approval date of 15 February for charges schemes for 2000-01. One or two companies, however, stressed the importance of receiving final approval earlier than that. Ofwat will commit to approving charges schemes no later than 30 days after receipt and, therefore, companies wanting approval earlier than 15 February should submit final schemes together with Principal Statements before 15 January.

3. Timetable for 2001-02

The detailed timetable for approving charges schemes for 2001-02 is set out below. This timetable reflects the commitments set out in the paragraphs above, made in response to companies' concerns. Key stages will be as follows:

(i) late June – Publication of Consultation paper on Tariffs policy issues

(ii) early July to early August – Meetings with companies and CSCs

- Meetings with all WaSCs and CSCs and those WoCs proposing significant changes to the structure of tariffs.
- The purpose of the meetings will be:
 - for companies to canvass major changes/new tariffs;
 - to progress outstanding issues from 2000-01 that Ofwat want to raise;
 - for CSCs to identify changes they would like to see, and to discuss companies' proposals for changes;
 - to discuss issues arising from the Consultation paper to inform companies' responses to it.

(iii) Mid-September – Ofwat sets out policy approach to issues in Consultation Paper

(iv) 6 October – Companies submit draft charges schemes and Principal Statements

- Principal Statements are to be based on an estimated November RPI notified by Ofwat in early September. Principal Statement Additional Information will not be required. Companies' draft calculation of the measured/unmeasured tariff differential should be based on the forecasts for water delivered for 2000-01 provided in the June 2000 return.

- Principal Statements will be based on company forecasts of the take-up numbers for new tariffs for the full twelve months of 2000-01 and be accompanied by actual numbers for first six months. Brief explanations of the basis for companies' forecast take-up numbers should be provided.
 - The tariffs policy indicator proforma provided by Ofwat in 1999-2000 (see RD 21/99) should also be completed.
- (v) November – Meetings/correspondence with companies on Ofwat concerns about draft charges schemes**
- It is envisaged that meetings will be held only where these are necessary to progress the outstanding issues.
- (vi) 8 December (or earlier) – Ofwat comments on draft charges schemes (formal requirements)**
- (vii) mid-December – issue of Principal Statement RD letter and Information Capture System (ICS)**
- (viii) mid-December 2000 to early January 2001 – clarification of any outstanding issues (through correspondence and, by exception, meetings)**
- (ix) 15 January 2001 – Submission of charges schemes and Principal Statements**
- Ofwat to commit to responding with formal approval within 30 days of receipt. Companies who want approval before 15 February would be expected to submit their charges schemes and Principal Statements before 15 January.
- (x) 15 February 2001 – Director's approval of charges schemes**

Yours sincerely

Charles H Whitworth
Head of Tariffs