

**Consultation on wholesale and retail
charges for 2015-16 and charges
scheme rules**

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1. Overview

The Water Act 2014 and our current price control (PR14) methodology require changes to the approach companies take in setting charges in the water sector. In January, we consulted with stakeholders on options for setting new charging rules and the associated governance arrangements.

In this document, we set out our expectations for charging rules relevant to companies setting separate wholesale and retail charges in 2015-16, and our expectations for further changes in charging over the next five years and beyond. This is intended to help stakeholders understand the future direction of regulatory charging policy, as well as to provide clear expectations for the immediate task of developing charges for 2015-16; the first year of the new PR14 price control period.

Development of future charging arrangements

As part of the price control process, the industry has already undertaken extensive work to put in place the needed consistent allocations and reporting arrangements to support separate charges, service delivery incentives, and accounts for the separate businesses from April 2015. There is, however, still more to be done and we will continue to take this forward in PR14. Charging rules will complement and support this progression.



Our short-term proposals for charging rules for 2015-16 should also be seen in the context of our wider approach to the future development of charging rules. In the medium term to 2020, our proposed approach to the development of charging arrangements is set out in table 1 below.

Table 1 Development of charging arrangements 2015-20

Area	Purpose	Next steps
<p>Better understanding of costing within value chain. For example: non-binding price control sub limits for water and wastewater</p>	<ul style="list-style-type: none"> i. Progressively reveal information to empower customers and companies ii. To enable further targeting of price regulation for example to provide the option for more disaggregated binding price controls in the future. 	<ul style="list-style-type: none"> i. Regulatory accounting requirements for 2015-16. ii. Open Water to identify a detailed set of wholesale activities that may need to be charged for individually. iii. In the next price control period, proposals regarding the network plus and network management tools will be developed and implemented.
<p>Future access pricing for incumbent networks</p>	<p>The Water Act 2014 enables a number of reforms such as greater ability for entrants to supply water into incumbent networks.</p>	<ul style="list-style-type: none"> i. Working closely with the industry and other relevant stakeholders, develop access pricing rules for using incumbent company infrastructure. ii. Ahead of PR19, access pricing rules will need to be developed. These will help us understand the contestability of the value chain affected from 2020, and assess the appropriate scope and form of price controls for PR19.
<p>Charges for contestable services</p>	<p>We will need to consider whether or not competition is sufficient to protect contestable customers in the future or whether some form of regulatory protection is required.</p>	<p>Review charging rules supporting existing contestable services, and the approach to regulation of non-household retail services in PR19.</p>
<p>Assessing the different options for charging structures to help send effective price signals</p>	<p>To understand the benefits and implications of different approaches to charging.</p>	<ul style="list-style-type: none"> i. Progress discussions with companies and stakeholders. Review newly revealed information. ii. For companies to populate a standard schedule with their wholesale charges.

Following the conclusion of the price review we will further progress discussions about structuring charges to send effective price signals, as well as further develop access pricing to enable effective entry from upstream undertakers. We will work with the industry and our relevant stakeholders in progressively evolving the charging framework along with price controls for the sector for 2020 and beyond.

The below expectations for 2015-16 charges are built on our [January consultation](#), along with discussions we have had with the industry and other stakeholders. They are firmly rooted in existing Government guidance and principles, as well as existing charging methodologies.

Retail charges

- **Bill stability.** Through the price control process we will challenge companies to ensure that customers do not have to pay any more than is necessary. But if any bill rises should occur, we also expect companies to carry out a proportionate impact assessment whenever the nominal value of a customer bill is expected to increase by more than 5% from the previous year (for a given customer type assuming a constant level of consumption). Companies will need to develop appropriate handling strategies that consider using the tools available to them to mitigate any unacceptable impacts to their customers.
- **Cost reflectivity.** As part of their business plans, companies have been developing more cost-reflective allocations of the retail components of their non-household costs. This has involved ensuring a robust separation of household and non-household costs. This is essential to ensure an effective non-household retail market, and to safeguard household customers. This should have a relatively small effect on overall bills, as historically only about 10% of total costs to be recovered have been associated with retail services (that is, any change in the overall cost reflectivity would affect charges by a fraction of a fraction). Beyond the requirements of the periodic review, we do not propose to set any additional requirements for retail charge cost reflectivity at this time, beyond retaining some of the features of the existing framework.

Wholesale charges

- **Standardisation.** We do not propose to require standardisation of wholesale charges at this time. But we will require all companies to populate a standard schedule with their wholesale charges so that they present them in the same way.
- **Bill stability.** Given the need for a cost-reflective retail component of non-household charges, there may need to be some re-balancing in charges. Companies may wish to consider adjusting their wholesale charges to help manage the transition. This initially more flexible approach to applying cost reflectivity principles to wholesale charges should help companies manage the transition to increased cost reflectivity in the retail component of their non-household charges.
- **Cost reflectivity.** In PR14 we are introducing separate binding price controls for water and wastewater wholesale services, reflective of the respective costs of these services, for the first time. Other than the implementation of these new licence requirements, we do not propose to set any additional requirements for wholesale charge cost reflectivity at this time. But we consider it appropriate to set some restrictions around the degree that wholesale charges can be flexed over the short term, in order to maintain an appropriate level of cost reflectivity to avoid inefficient resource use.
- **Resourcing and governance of the Open Water programme.** In developing their charges, companies should recover the initial costs of the Open Water programme and the establishment of a market operator through a ring-fenced element of wholesale charges made to non-household customers only. We also consider that apportioning the recovery of the relevant costs in line with some measure of the size of the expected bill for each class of customer may be the most appropriate way to structure such a recovery. This would mean that those customers who are likely to gain the most in absolute savings from market reform would contribute more to its development.

Information provision and governance

- **Publishing charges.** For 2015-16, we will require companies to publish their wholesale and end-user retail charges by 2 February 2015. In future years, we will require wholesale charges to be published earlier to enable new entrants to develop their own retail charging proposals ahead of the new charging year from April.
- **Bills information.** We will not require companies to present separate wholesale and retail charges on customers' bills for 2015-16. Instead, we expect companies to present information to customers in a manner informed by their customer research/ongoing dialogues with customers.
- **Compliance with the price control.** We will require companies to demonstrate compliance with price controls through their regulatory accounts, and to provide assurance through their annual risk and compliance statements (RCSs).
- **Additional information.** As 2015-16 is the first year for companies to develop separate wholesale and retail charges, we will also require them to provide us with some additional information before these new charges come into effect. This will take the form of a spreadsheet submission of their draft wholesale and retail charges. We will issue the template when all companies have received their draft determinations (29 August).

Table 2 Summary of this document

Area	Summary	Where you will find further information
Background	Background and context around the water sector's charging framework.	Appendix 1
Development of charging arrangements 2015-16 and beyond	Provides our view on the development of charging arrangements in over the next five years and beyond to provide stakeholders with an understanding of the future direction of charging.	Appendix 2
Retail charges	Sets out our expectations for companies' 2015-16 retail charges, as well as raising questions about our approach beyond 2015-16.	Appendix 3
Wholesale charges	Sets out our expectations for companies' 2015-16 wholesale charges, as well as raising questions about our approach beyond 2015-16.	Appendix 4
Information provision and governance	Sets out our expectations for the information and assurance that companies will need to provide for 2015-16, as well as raising questions about our approach beyond 2015-16.	Appendix 5
Existing charging features to be maintained	Sets out the features of the existing charging framework that we expect to be maintained.	Appendix 6
Draft standard wholesale charging schedule	Sets out a draft schedule for consultation. We will require companies to populate a standard schedule with their wholesale charges.	Appendix 7
Responses to 'Wholesale and retail charges – a consultation'	Summarises the responses to our January consultation on retail and wholesale charges.	Appendix 8

2. Consultation questions

Throughout this consultation, we raise a number of specific questions, which we have summarised here. As well as responses to these specific questions, we welcome views from stakeholders on any of the issues we raise in this document.

Q1 Do you agree with the proposed approach to the development of charging arrangements in the 2015-20 period? If not, please explain and provide evidence for your view.

Q2 Do you agree with the nominal 5% bill change as a threshold for undertaking impact assessments? If not, please set out an alternative threshold and provide evidence for this view. Should the same threshold apply to all customer types?

Q3 Do you agree with such a threshold being a short-term measure? If so, when should Ofwat remove such a requirement?

Q4 Do you agree with the draft schedule for presenting standardised charging schedule presented in appendix 7? If not, please provide alternative proposals.

Q5 Should charges associated with Open Water and market readiness be included as a separate increment to the volumetric charge in the wholesale charging schedule?

Q6 Beyond 2015, do you agree that wholesale charges should be published in advance of retail charges? If so, please provide views on how far in advance is appropriate.

Q7 Do you consider that Ofwat should require retail water bills to provide a breakdown of retail and wholesale charges?

3. Responding to this consultation

We welcome your responses to this consultation by **4 July 2014**.

You can email your responses to price.review@ofwat.gsi.gov.uk or post them to:

Charges reform
Markets and Economics Division
Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA.

We will publish responses to this consultation on our website at www.ofwat.gov.uk, unless you indicate that you would like your response to remain unpublished. Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with access to information legislation – primarily the Freedom of Information Act 2000 (FoIA), the Data Protection Act 1998 and the Environmental Information Regulations 2004.

If you would like the information that you provide to be treated as confidential, please be aware that, under the FoIA, there is a statutory ‘Code of Practice’ which deals, among other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information, we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on Ofwat.

Appendix 1: Background

A1.1 This consultation

In [‘Setting price controls for 2015-20 – final methodology and expectations for companies’ business plans](#) (our ‘final methodology statement’), we set out our approach to setting price controls for 2015-20. In the past, we have set a single price control per company, with separate indicative controls for water services and sewerage services for those companies that provide both. As we confirmed in our methodology statement, we will now be setting separate controls for each company for:

- water wholesale services;
- wastewater wholesale services;
- household retail services; and
- non-household retail services.

This will require the companies we regulate to set charges separately for each of these controls. Also, the Water Act 2014 sets out changes to the existing governance arrangements for charges. We will no longer be required to ‘approve’ companies’ charging schemes. Instead, we will set charging rules with which companies will be required to comply. In making these rules, we will have regard to any guidance issued to us by the UK and Welsh Governments.

In May 2013, the UK Government published its [‘Strategic policy statement to Ofwat’](#). The statement identified a series of Government priorities, which the Government expects Ofwat to reflect in its decision making. On 30 October 2013, the UK Government published a set of [‘Principles governing future water charges’](#). These principles are expected to underpin the development of the charging guidance that the UK Government will issue to Ofwat in the future.

On 3 December 2013, the Welsh Government published its [‘Social and Environmental Guidance to Ofwat’](#). This guidance, along with the guidance to water companies and Ofwat in relation to social tariffs, is expected to underpin the guidance that the Welsh Government’s will issue to Ofwat in the future.

Our proposed approach to charging in this consultation is designed to be consistent with the UK Government's strategic policy statement and published charging principles, and the guidance from the Welsh Government. However, due to our current understanding of the expected timing of final Government guidance, we will not be issuing final rules for charges schemes until the first quarter of 2015.

In January 2014, we published '[Wholesale and retail charges – a consultation](#)' that set out a series of key themes that require consideration in setting future charging rules, as well as features of the overall charging framework, such as information and governance requirements.

This document builds on our January consultation, and provides a set of working expectations for how we envisage companies to approach the development of their wholesale and retail charges for 2015-16. In particular, it reflects the practical matters that we envisage companies will need to take into account in developing their charges for 2015-16.

As our expectations for 2015-16 have been firmly rooted in Government guidance and principles (as well as existing charging methodologies), we consider it unlikely that there will be a need for significant revisions following any final charging guidance from the UK and Welsh Governments. However, we will issue a brief consultation on the final rules for 2015-16 before the new charging year begins in April 2015 to explore the need for any potential refinements in the event of such guidance.

In general, we see our charging rules evolving progressively over time. That is, the rules that we issue for 2015-16 will further evolve over future years to reflect lessons learned and information revealed through the way that we regulate, and the markets we monitor. As a result, this consultation also requests views from stakeholders on a number of medium- and longer-term proposals that we may reflect in future iterations of charging rules.

A1.2 Charges schemes

A charges scheme is a statement of each company's charges and associated terms, such as times and methods of payment. It has to cover all charges that have not been levied in accordance with agreements with the persons to be charged, or under specific statutory powers.

As part of our approvals process under previous legislation, in the past we have published a set of 'charging principles' for companies to comply with in developing their charges. Accompanying the principles, we have also previously published a set of more detailed 'charging guidelines', which provide further details on how we consider the principles could be addressed.

Our approvals process used to involve a series of detailed upfront checks by Ofwat. But these were considered to:

- be burdensome;
- have the perceived effect of reducing company ownership of their charges; and
- duplicate a number of processes that the companies carried out.

As a result, we have progressively moved to an approach whereby companies are accountable for producing their charges, with Ofwat approving the schemes based on companies' assurance statements. This is in line with our risk-based approach to regulation, which enables us to focus on any high risk areas.

The Water Act 2014 further enables such an approach, by enabling us to set rules with which companies must comply, and removes the requirement for us to approve companies' schemes.

A1.3 Other types of charges

As well as rules for charges schemes, the Water Act 2014 will enable Ofwat to set charging rules for a number of other types of charges, including the following.

- **Charges for bulk supplies.** A bulk supply is a supply of water from one appointed company to another. Across the sector, the total volume of water traded is currently fairly low (less than 5%); but, our price review methodology introduces a new trading incentive which is designed to encourage companies to trade water where it is beneficial to do so. Bulk supplies not only take place between incumbents; new appointees and variations (NAVs) are often supplied by water from the local incumbent.

- **Charges for new connections.** Companies charge developers¹ for the provision of relevant infrastructure and to connect new developments to the water and sewerage network.
- **Access prices.** Undertakers operating monopoly assets and services in the sector charge licensees for access to their monopoly assets and/or services. The Water Act 2014 will expand water supply licensing and introduce sewerage licences, providing more opportunity for alternative parties to supply certain wholesale services. These licensees may therefore need to gain access to undertakers' monopoly networks to provide these contestable services efficiently. Access pricing will be a key area of regulatory focus in the future². This is further discussed in section 3.2.

We will consult on these other key areas of charging in due course.

¹ The term 'developer' is used to refer to any business or individual whose new buildings or premises require water or drainage services. Further details on charging for new connections can be found on the Ofwat website (http://www.ofwat.gov.uk/competition/review/pap_tec201311newconnections.pdf).

² Further details on future access pricing can be found on the Ofwat website (http://www.ofwat.gov.uk/competition/review/pap_tec201311accesspricing.pdf).

Appendix 2: Development of charging arrangements 2015-20 and beyond

In this section, we set out our view on the development of charging arrangements in the 2015-20 period and beyond to provide stakeholders with an understanding of the future direction of charging.

A2.1 Revealing information

We have worked with the sector over the past few years to develop the extent that companies provide us with more disaggregated cost data. This has enabled us to target our price controls for different activities, and in so doing, set more effective incentives for the different parts of the value chain, and support the development of the proposed competitive market for retail services to non-household customers in England. The '[Updated price limits impact assessment](#)' estimates that there will be a benefit of more than £1.3 billion to customers from us setting separate price controls.

As we stated in our final methodology statement, we will introduce the following non-binding sub-limits within the 2015-20 period.

- **One for water**, covering raw water distribution, water treatment and treated water distribution, but not water resources, where the Water Act 2014 envisages the scope for greater contestability in the future.
- **One for wastewater**, covering sewage collection and sewage treatment, but not sludge treatment, recycling and disposal, where greater opportunities for contestable service provision also exist.

This progressive revealing of information will enable us to further target our approach to regulation. It will also help enable future upstream reforms as set out in the Water Act 2014. This could involve us setting more disaggregated price controls in the future.

As price controls develop progressively to align with individual components of the value chain, we will also need to consider further the various different approaches to structuring the rules applied to different types of charges, and how such charges are made transparent to customers and/or the market.

Competition does not always need to be present for disaggregated charges to provide benefits to customers. A detailed break-down of the different services a company provides, and their respective charges, could help empower customers to make choices in the bundles of services they choose to buy – even where the service provision is not contestable.

In informing our decisions about the future evolution of price controls and charging rules, it is likely we need further information from companies about their costs, and operations. Our experience to date, including most recently during the current price review (PR14), has been that capturing new data can take a great deal of time to ensure a reasonable level of robustness and consistency.

We are working with the sector to progress our work on cost discovery, and we will consult later in the year on the regulatory accounting requirements for 2015-16.

A2.2 Future access pricing

As described above, the Water Act 2014's upstream reforms will enable new entrants to provide certain wholesale services³ – such as providing water into an incumbent's network, for example.

If new entrants are to provide wholesale services, then they will need to interact with the existing monopoly water and sewerage companies. This may involve the monopoly companies charging new entrants a price for using ('accessing') their infrastructure.

Access to a monopoly company's water supply and sewerage infrastructure may include access to:

- networks;
- storage facilities; and
- treatment works.

A new entrant may also wish to purchase a range of other services from the monopoly company.

³ There will be a different licencing framework for Wales; however, there will still need to be considerations towards setting suitable access prices.

All such services will need to be priced and charged for, and will be a key focus of our future work on charging.

Throughout the rest of this consultation, we use the term ‘wholesale charges’ to refer to ‘bundled wholesale charges’ relevant for setting price controls in PR14. In other words, charges that cover all the relevant wholesale costs associated with:

- resource;
- treatment; and
- distribution.

Future access pricing will cover specific services, within these bundled wholesale services. In the future, we may want to have a clear reconciliation between granular access prices and bundled wholesale charges.

More immediately, the Open Water programme⁴ is currently working with the sector to identify a set of detailed wholesale activities that may need to be charged for post-2017. Further work may be required to unpack the 2015-16 wholesale charges to suitably reflect the more granular list of services for April 2017 and beyond.

A2.3 Charges for contestable services

In our final methodology statement, we confirmed that we would set average revenue controls per customer type for retail services provided to non-households. These will provide a back-stop level of protection for customers in the contestable market, with non-household customers served by companies wholly or mainly in Wales still being subject to a regulatory efficiency challenge and a service incentive to protect them in the absence of choice.

As competition develops, we may seek to review our approach. By the 2019 price review, we may not need to set such controls where customers are actively engaged in the market. This may be for all contestable customers of retail services, or initially just a sub-set. We would need to assess nearer to the time as to whether the market would provide suitable protections without upfront safeguards such as the existing default tariffs being in place.

⁴ Further details on the Open Water programme can be found on its website (<http://www.open-water.org.uk/>).

A2.4 Assessing charging structures

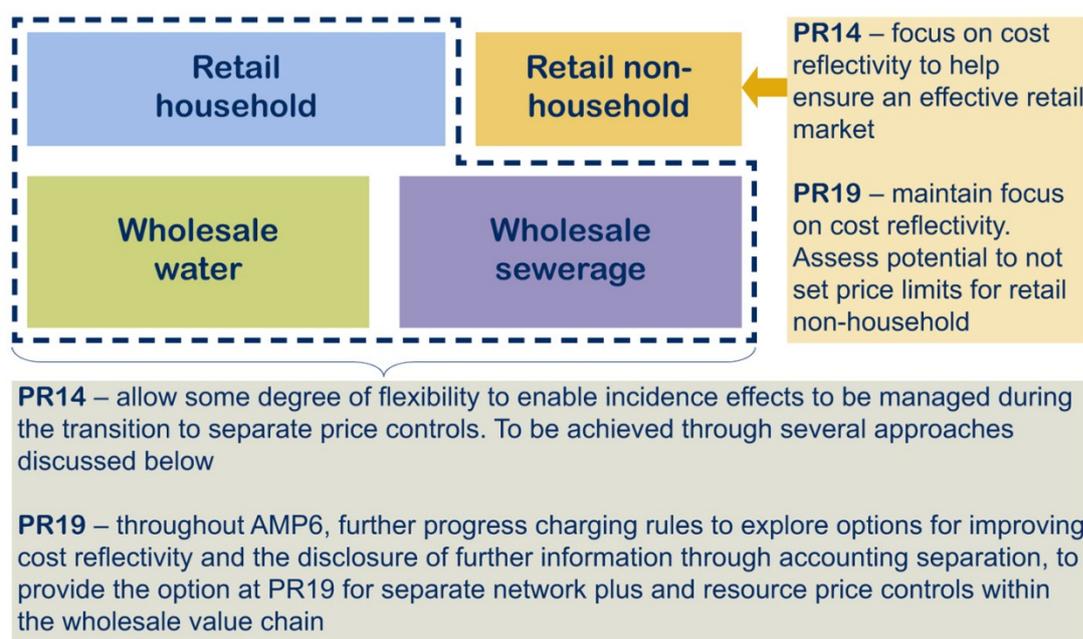
In our January consultation, we discussed the different forms that charging cost reflectivity could take, and how it can benefit customers and the environment. We noted that any move to improve the cost reflectivity of charges would need to be carefully managed, and that it may be appropriate to manage certain changes over the course of many years.

Over the next five years and beyond we will continue to assess companies' charging structures to understand the benefits and implications of different approaches to charging. We will progress discussions with companies and other stakeholders.

A2.5 Summary of future direction

The diagram below summarises the different approaches to setting charges for each price control, over the short term (PR14), and the medium term (PR19).

Figure A2.1 The different approaches to setting charging by price control



Beyond PR19, we will further progress charging rules where required for improving cost reflectivity and the disclosure of further information through accounting separation. We will progressively evolve our rules to reflect lessons learned and information revealed through the way that we regulate and the markets we monitor.

In so doing we will work with the industry and our relevant stakeholders, and will operate within the Government's overall policy framework.

A2.6 Consultation question

Q1 Do you agree with the proposed approach to on the development of charge arrangements in the 2015-20 period? If not, please explain and provide evidence for your view.

Appendix 3: Retail charges

Retail charges are the total charges that end-users pay for the use of wholesale and retail water and wastewater services. From April 2017, all non-household customers that are currently served by water companies operating wholly or mainly in England will be able to choose their retailer. For the non-household market, we are setting 'default tariffs', which will provide a back-stop level of protection for the prices charged for the relevant retail services until competition has suitably developed.

Retail and wholesale services to household customers – and all non-household customers using less than 50 million litres (Ml) of water a year that are currently served by water companies operating wholly or mainly in Wales – will continue to be served by appointed monopoly providers.

In regulating the non-contestable retail charges, and the initial default tariffs controls, there are a number of issues that we need to consider. These are discussed below.

A3.1 Bill stability

Any changes to the charges that customers face need to be managed carefully as research has consistently shown that customers do not like large changes in bills from one year to the next. The need for a reasonable degree of bill stability is clearly reflected in the UK Government's charging principles. The Welsh Government's social and environmental guidance also shows a clear concern for bill rises, particularly for those customers who are least able to pay.

One of the main ways we protect customers from excessive pricing is through the price controls that we set. While most of the business plans that companies submitted in December proposed to limit average bill increases to RPI (or less) in the next control period, there may be particular instances where specific bills will need to rise. For example, where companies make changes to how their charges are structured, there may be some customers that experience bill decreases, and others who experience increases.

Our January consultation set out a preference for companies to carry out proportionate impact assessments and develop strategies for handling any incidence effects associated with proposed significant changes to charges. Respondents to the consultation supported this view. We remain committed to this approach.

To apply such an approach for bill stability successfully requires a definition of what a ‘significant’ change to a bill is. The acceptability of bill changes is likely to vary by type of customer; certain non-household customers may view water and sewerage bills as a relatively small business cost, whereas other customers may consider water and sewerage bills to be a far more significant cost within their annual budgets.

Table A3.1 below shows the range of percentage annual increases in average household bills by service type, averaged from 1989 to 2013 across all companies, before controlling for inflation.

Table A3.1 Historical average household bill annual increases (nominal)

Percentile increase	Water un-metered	Water metered	Water combined	Sewerage un-metered	Sewerage metered	Sewerage combined
5th	-3.1%	-13.1%	-2.6%	-1.8%	-10.9%	-2.1%
10th	0.0%	-7.8%	-0.4%	0.0%	-6.6%	0.0%
25th	1.6%	-1.5%	1.1%	0.8%	0.0%	0.0%
Median	4.4%	2.3%	4.0%	5.8%	2.6%	4.8%
75th	8.0%	7.0%	7.1%	8.5%	6.6%	7.6%
90th	13.2%	13.0%	12.8%	11.9%	12.3%	11.2%
95th	16.5%	17.4%	16.0%	13.4%	16.1%	13.1%

The table indicates that nominal annual bill increases of between 4% and 6% have been commonplace across the sector over the past 25 years. But, as bills have risen to take account of increased environmental expenditure and improvements in customer service, an equivalent percentage increase today would mean a greater absolute nominal impact on customers’ bills. Also, most of the business plans that companies submitted in December proposed to limit average bill increases to RPI (or less) in the next control period, which is currently expected to remain significantly below 5% during AMP6.

In 2007, the Water Industry Commission for Scotland (WICS) decided to impose a more stringent rule on bill increases that stipulated no non-household customer should see an increase of more than 1.5% real (5.7% nominal). While it would not be appropriate to set such a rigid constraint in the context of the England and Welsh companies (as in some cases, bills may be increasing to fund essential investment),

the 5.7% figure provides an indication of what may be considered to be a significant bill increase for other non-household customers in the UK.

We have also considered evidence presented in companies' business plans relating to customer acceptability of annual bill increases. Preliminary results suggest that annual nominal bill increases higher than a range of between 3% and 6% could lead to a reduction in customer acceptability for a number of business plans.

Given the range of indicators considered, we propose that our 2015-16 working assumption for 'significant' should be 5% for nominal annual retail bill increases both for household and non-household customers, until more robust information has been obtained.

We welcome views from stakeholders on whether more robust evidence exists for 'significant', and how this can be assessed for different customer types.

In the meantime, we expect companies to carry out a proportionate impact assessment whenever the nominal value of a customer bill is expected to increase by more than 5% from one year to the next (for a given customer type assuming a constant level of consumption) and to develop strategies for handling any such changes. We set this out in the text box below.

Proportionate impact assessment and handling strategies

It has been a part of our governance process for charges schemes for a number of years that companies must carry out proportionate impact assessments and develop strategies for handling any incidence effects relating to significant changes.

While companies should ultimately own the content of the assessments and strategies, we expect them to broadly cover:

- an identification of the extent that different types of customers are affected by any change;
- an assessment of whether it would be more appropriate to phase changes in over a number of years, and what the implications of doing so would be; and
- an assessment of the different ways change could be managed – for example, increased customer engagement in advance/an information campaign on the different payment schemes available.

Given the changes to charging methodologies being introduced next year, we consider that such a threshold is important to monitor and manage the possibility of any negative effects on customers. However, we see it as a short-term measure. In the longer term, we would expect companies themselves to identify when impact assessments may be required without a uniformly-set threshold, and to carry them

out accordingly. This would be in line with our progressive trend to a more risk-based approach to regulation, with us only intervening as a 'safety net' where required.

For the avoidance of doubt, the 5% significance level does not mean that charges cannot increase above that level (providing they comply with price controls) as there may be justifiable reasons why this might be the case (for example, to enable for essential investment to take place). Indeed, as competitive markets develop, some customers will have a greater level of choice and some may choose tariffs that result in large single-year bill increases in exchange for higher levels of service. In such circumstances, an impact assessment may not be required, but for the short term (where all non-household customers receiving standard bundled services will begin with the safeguard of default tariffs), we consider such an approach to be appropriate.

We are not proposing an equivalent threshold for any bill decreases. However, companies may need to carefully consider the management of any large decreases, particularly if charges were anticipated to rise again in the future.

As 2015-16 is the first year for companies to develop separate wholesale and retail charges, we will also require companies to provide us with some additional information before these new charges come into effect. This will take the form of a spreadsheet submission of their draft wholesale and retail charges.

The spreadsheet will provide us with early visibility of significant incidence effects, and will enable us to have appropriate discussions with companies about their draft charging proposals before final charges schemes come into effect.

We will issue a template of this spreadsheet when all companies have received their draft determinations (29 August). We are also currently minded to view this as a short-term measure to help manage the transition from integrated charges to separate wholesale and retail charges.

As we said in our final methodology statement, we will not set separate wholesale and retail price controls for small companies (which during PR14 we have defined as Cholderton & District Water and the five new appointees). As the small companies are not going through the same price review process as other appointed companies, and in the interests of proportionality, we will not require the same upfront information to be provided. But we do expect small companies to manage their charges in a customer-focused manner, and to carry out any proportionate impact assessments of significant proposed annual charge changes where they consider them to be required.

A3.2 Cost reflectivity

In our January consultation, we discussed the different forms that charging cost reflectivity could take, and how it can benefit customers and the environment.

Given the current contestability of non-household retail services to certain customers, and the expansion of the retail market from 2017, at a minimum, charges to non-household customers will need to effectively reflect the associated retail costs (on top of the relevant regulated wholesale charges) to help ensure an effective competitive market. That is, non-cost-reflective pricing by incumbents could otherwise lead to excessive pricing in some areas, and potential market foreclosure as a result of anti-competitive pricing in others.

The need for charges to enable new entrants to compete on level terms with incumbent companies is also clearly reflected in the UK Government's charging principles.

Companies have already carried out extensive cost allocation exercises for their non-household retail costs as part of the price control process, and are ultimately accountable for ensuring compliance with their duties and obligations, including compliance with competition law.

Retail costs are a relatively small component of a companies' overall cost base (historically comprising of about 10% of total regulated costs to be recovered). So, in general, changes to improve cost reflectivity in this area should have a limited effect on the overall cost reflectivity and levels of retail end-user charges – that is, a fraction of a fraction.

To ensure household customers do not bear the costs of non-household activities, as part of the price review process companies were required to carry out an extensive cost allocation exercise between their household and non-household retail costs. We have reviewed these allocations in detail and have challenged those companies where we think cost allocations could be improved.

At this time, given that for 2015-16 there will already be a reasonable degree of change with companies having to split their charges between wholesale and retail, and in the current absence of final Government guidance, we do not propose to set any additional requirements for cost reflectivity on household charges. That said, we have reviewed our existing [charging principles and guidelines](#) and companies' existing charges schemes, to identify features we would wish to retain and carry over into our new charging rules to help protect customers and the environment.

So we expect companies, in developing their retail charges, to maintain the set of existing charging features set out in appendix 6.

A3.3 Social tariffs

In 'IN 13/19: Allocation of social tariff and surface water drainage concessions cross-subsidies', we said that companies should administer social tariffs through the household retail controls (that is, not reflected in wholesale prices). We remain committed to this approach.

A3.4 Consultation questions

Q2 Do you agree with the nominal 5% bill change as a threshold for undertaking impact assessments? If not, please set out an alternative threshold and provide evidence for this view. Should the same threshold apply to all customer types?

Q3 Do you agree with such a threshold being a short-term measure? If so, when should Ofwat remove such a requirement?

Appendix 4: Wholesale charges

With separate price controls, companies will also be required to prepare and publish wholesale charges for the first time. These will help provide transparency for retailers operating nationally in the contestable retail market. In particular, this should improve the ability of competing retailers to develop new retail tariffs and associated service offerings for their customers, further enabling end-customers to benefit from competition.

In regulating bundled wholesale charges, there are a number of issues that we need to consider. These are discussed below.

A4.1 Bill stability

As we discussed in the previous chapter, companies have carried out extensive cost allocation exercises to help ensure that charges to non-household customers will reflect effectively the associated retail costs, and are continuing to refine these during PR14.

In doing so, companies have developed different default tariff proposals for different services – for example, water, wastewater, trade effluent (measured/unmeasured) and have split these into different consumption bands (for example, 0-1 MI, 1-5 MI). They have then carried out cost allocation exercises for each band. As an example, high-volume users may require more meter readings a year; in such a case, more meter reading costs will have been allocated to that band. All things being equal (and in cases where meter reading costs had not been as accurately allocated in a cost-reflective manner in the past), this would lead to a slight increase in the amount of relevant retail service revenue to be recovered from the high-volume band, and a slight decrease for all other non-household customers.

While such changes should be relatively small (as noted above, overall about 10% of total costs to be recovered have historically been associated with such retail services), companies may wish to set their initial wholesale charges to help manage the initial transition.

In other words, companies may wish to consider how they can use their wholesale charges to help manage the transition to new charges.

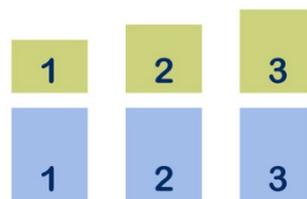
Figure A4.1 below sets out a simplistic and exaggerated visual example below for three different customer types.

Figure A4.1 Managing incidence effects through wholesale charges

Existing integrated bills for three different customers



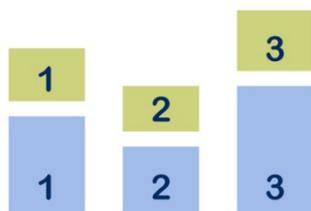
Disaggregated bills, with wholesale charges not adjusted to manage incidence effects



Note the bill increase for customer 2



Disaggregated bills, with wholesale charges adjusted to manage incidence effects



By adjusting the wholesale charges, companies can manage incidence effects while ensuring that the retail component is cost reflective for different bands of customers

This initially more flexible approach to applying cost reflectivity principles to wholesale charges should help companies manage the transition to increased cost reflectivity in the retail component of their non-household charges.

A4.2 Cost reflectivity

Allowing companies the flexibility to set their initial wholesale charges does not involve moving wholesale revenue between household and non-household customers; just between tariff bands for a given set of bundled water or wastewater wholesale services. Nor do these proposals remove our ambition that wholesale charges, like retail charges, should also be more cost reflective in the longer term. So, we would expect wholesale charges to develop progressively over time to become more cost reflective within the ‘headroom’ of acceptable annual incidence effects on customers.

In the meantime, we consider it to be appropriate to set some restrictions about the degree that wholesale charges can be ‘flexed’ to accommodate initial retail cost reflectivity within the envelope of overall bill stability. These are that:

- wholesale charges for core services should not be below avoidable costs⁵, as this could lead to inefficient resource use;
- any initial flexibility over cost reflectivity used to set wholesale charges to manage customer bill increases, arising from greater retail cost reflectivity, to be unwound by the start of retail market opening in England in 2017-18; this would be in time to ensure the expanded national retail market started to operate on a level playing field with more sustainable regional wholesale charges; and
- the charges continue to comply with our existing charging features set out in appendix 6 at all times.

As set out in our January consultation, developing cost-reflective wholesale charges may require developing an understanding of the drivers of cost such as how incremental costs change with volumes. We appreciate that considerable work would be required to improve the cost reflectivity of wholesale charges and would welcome efforts to improve the understanding of industry costs as part of the journey towards more cost-reflective charges.

At this time, we do not propose to set any specific requirements for improving wholesale cost reflectivity, although we will keep such requirements under consideration for the future.

A4.3 Standardisation

The level of wholesale charges will differ across companies operating in different regions, reflecting the differences in their underlying efficient costs allowed in their price controls. But in our January consultation, we discussed that there may be some merit in requiring companies to use a common methodology to derive their wholesale charges. This would mean retailers operating in the competitive non-household market would not be faced with significantly different wholesale charging schemes between regions when seeking to serve non-household business customers in a national retail market.

⁵ The costs that could be avoided by not serving a given group of customers – such as pumping and abstraction costs, for example. If charges do not cover an avoidable cost floor, then too much water could be sold.

However, some types of standardisation could potentially reduce the level of cost reflectivity in the tariffs, and may constrain innovation in the development of charges by monopoly providers. For example, some companies may seek to develop wholesale charging structures that reflect specific features of their operating areas.

As there is a mixed case for standardisation, and as there will already be a reasonable degree of change in charging methodologies for 2015-16, we are not minded to introduce further complexities to the development of charges at this time. Therefore, and noting the current absence of final government guidance, we will not require any form of standardisation of wholesale charges across the sector at this time.

However, in order to provide a degree of transparency to existing retailers, and to help progress the debate on the extent and form that standardisation could take in the future to support effective markets, we propose to require companies to populate a 'standard schedule' with their charges so that they are all presented in the same way (see appendix 7).

The schedule will only be a standard way of presenting wholesale charges and will not enforce standardisation of charging structures. So it will provide some degree of transparency to existing retailers, while not creating any additional incidence effects or adding to a potential lack of cost reflectivity.

We are grateful to Anglian Water for providing a first draft of the schedule.

A4.4 Resourcing and governance of the Open Water programme

The UK Government's principle that household customers "will not subsidise the development of competitive markets for business customers" means that wholesale costs relating to market readiness and the Open Water programme cannot be recovered evenly across wholesale charges, as it would mean household customers would be contributing towards these costs. Nor can the costs be allocated to the non-household retail control as this would risk distorting the market with incumbent retailers bearing higher costs than entrants.

In October 2013, we wrote to the CEOs of water companies seeking their views on the funding of the Open Water programme. In the letter, we said that it would be appropriate for the initial costs of the Open Water programme and the establishment of a market operator to be recovered through companies' wholesale price controls.

In developing their charges, companies should recover these costs through a ring-fenced element of wholesale charges made to non-household customers only. We consider that this would provide suitable transparency that only contestable customers were bearing the costs of market development. We also consider that apportioning the recovery of the relevant costs in line with some measure of the size of the expected bill for each type of customer may be the most appropriate way to structure such a recovery. This would mean that those customers that are likely to gain the most in absolute savings from market reform would contribute more to its development.

A4.4 Surface water drainage concessions

In 'IN 13/19: Allocation of social tariff and surface water drainage concessions cross-subsidies', we said that surface water drainage concessions should be administered at a wholesale wastewater level (that is, reflected in wholesale charges). We remain committed to this approach.

A4.4 Consultation questions

Q4 Do you agree with the draft schedule for presenting standardised charging schedule presented in appendix 7? If not, please provide views.

Q5 Should charges associated with Open Water and market readiness be included as a separate increment to the volumetric charge in the wholesale charging schedule?

Appendix 5: Information provision and governance

A5.1 Publication of charges

Given the timing of PR14 and the need for companies to have their end-user charges in place around the beginning of February 2015, when some companies start to issue bills to unmetered customers for 2015-16, we will require all companies to publish both their wholesale and end-user retail charges by **2 February 2015**. In future, we will require wholesale charges to be published earlier than retail charges to enable new entrants to develop their own retail charging proposals ahead of the new charging year from April.

A requirement for undertakers to publish their retail charges at the start of February should also give companies supplying end-customers as new appointees and variations (NAVs) sufficient time to take them into account in their own charges schemes, so that they can also publish their schemes before the new charging year from April. This is necessary given that the current regulatory approach to NAV charging, by reference to undertakers' retail charges, is expected to continue from April 2015.

In developing charges for 2015-16, we expect companies to consult CCWater, and to engage with their customers and their representative groups as appropriate. We expect companies to publish their charges in a customer-friendly and transparent manner.

As we are not setting separate wholesale and retail price controls for the small companies (as defined above), a more proportionate approach is required for the development of their wholesale charges ahead of market opening. These companies should be aware whether they have any customers that are currently contestable, and will need to publish before April 2017 wholesale charges covering services provided to those retail customers that will become contestable.

A5.2 How bills are presented

Companies have sought confirmation from Ofwat as to whether they will need to show separate wholesale and retail charges on the bills they send to customers. There are arguments either way for this.

- **Arguments for** include improving transparency and thus empowering non-household customers to challenge their retailer to reduce their costs or they will switch.
- **Arguments against** include reducing the incentive for retailers to challenge wholesale costs (as any savings would become transparent or as customers could see the wholesale charge as a cost pass through), and reducing company ownership in how bills are presented. The fact that this is not a requirement in the contestable Scottish non-household retail market or the energy sector where both household and non-household services are contestable, may imply that such information may be of limited use to customers.

As there are arguments both ways, we are not proposing a requirement for companies to present separate wholesale and retail charges on customers' bills for 2015-16. Instead, we expect companies to present information to customers in a manner informed by their customer research, or as a result of ongoing dialogue with customers.

We request stakeholders' views on whether we should set requirements in the future on how bills should be presented.

A5.3 Compliance with the price control

There was widespread support for companies to demonstrate compliance with price controls through the regulatory accounts and to provide assurance through companies' annual RCSs. We will consult later in the year on the regulatory accounting requirements for 2015-16.

As discussed in section A3.1, companies will need to complete a template, which we will issue when all companies have received their draft determinations (29 August).

A5.4 Consultation questions

Q6 Beyond 2015, do you agree that wholesale charges should be published in advance of retail charges? If so, please provide views on how far in advance.

Q7 Do you consider that Ofwat should require retail water bills to provide a breakdown of retail and wholesale charges?

Appendix 6: Existing charging features to be maintained

We expect (subject to the short-term re-balancing described in chapter 5):

- the difference between metered and unmetered customers to reflect any differences in costs of, and additional benefits to, one supply relative to the other;
- consistent principles and approaches to be applied across different classes of customers;
- companies to not base their large and intermediate tariffs on the fact that these customers simply use a larger amount of water or discharge a larger quantity of wastewater – large/intermediate tariff differentials should only be based on cost differences associated with differential use of network assets, differential peaking characteristics, different service levels and different service measurement accuracy;
- in determining the balance between sewerage charges, for companies to take into account the different pollutant loads associated with household foul sewage, non-household foul sewage, trade effluent and surface water/highway drainage waters;
- for companies to link their assessed charges as closely as practicable to the volume of water those customers would be likely to use if they had a meter;
- charging structures should reflect long run costs (that is, volumetric charges to form a larger component of the bill than implied by short run costs);
- where companies have adopted differential peaking characteristics as a cost basis to support a non-household tariff, for them to structure the resulting tariff on an appropriate peak demand basis; and
- for the trade effluent charges to be based on the Mogden formula (or variant of), or on a demonstrably more cost-reflective basis.

These should apply to both wholesale, household retail and default retail charges. But (as always) companies are accountable for ensuring compliance with their duties and obligations, including compliance with competition law. Legal requirements take precedence over the charging features identified above.

Appendix 7: Responses to ‘Wholesale and retail charges – a consultation’

We received 15 responses to our January consultation on wholesale and retail charges, including:

- 12 responses from incumbent companies;
- one response from a new appointee;
- one response from a retailer yet to enter the English or Welsh water markets; and
- one response from the Consumer Council for Water (CCWater).

We summarise the responses below.

A7.1 Keeping bills stable for customers

Q1 Do you agree that we should set rules for bill stability, for charges for non-contestable services?

Most respondents recognised the need for there to be some regulatory oversight of the stability of charges for non-contestable services.

Five respondents agreed with the concept of rules for bill stability. Many respondents favoured Ofwat setting high-level principles, or guidance around bill stability rather than a specific rule(s).

One respondent favoured rules only where they further clarified condition E.

Q2 Do you agree with our initial preference for companies to carry out a proportionate impact assessment and develop a strategy for handling any incidence effects of significant changes to charges, rather than be more prescriptive?

Eleven of the fifteen respondents agreed with our initial preference.

One respondent considered that such a requirement was not necessary. Another suggested that an impact assessment should take place at an industry level (rather than on a company-by-company basis).

The Consumer Council for Water viewed that companies should be specifically required to engage with, and take account of, the views of CCWater. It further noted that in the non-household market, wholesalers might not have visibility of end-user charges, and so specific rules on wholesale charges may be required.

A7.2 Evolving charges over time to improve their cost reflectivity where this will benefit customers

Q3 How material are the incidence effects likely to be if we were to set specific requirements for cost reflectivity?

Views varied in response to this question.

One respondent supported charges being based on models that incorporate long run incremental costs.

Another urged caution in setting any prescriptive requirements and encouraged Ofwat to see moving to more cost-reflective charging as a process over time and as a result, any expectations for the 2015-16 charging year should be viewed as transitional.

One respondent reflected on the short run effects of bill stability, and how customers that experience their bills increasing tend to be vocal, while those that see decreases tend to remain silent, and how this can lead to an unbalanced view being presented.

Two respondents noted that effects can be different depending on the service in question. In particular, they noted the variable costs in sewerage.

Two respondents provided specific analysis in relation to the materiality of incidence effects (one related to sewerage treatment and the other based on regional water charges).

Q4 Would it be appropriate for us to prioritise cost reflectivity in certain areas?

Respondents' views were mixed on this issue.

One suggested that the priority should be to ensure cost reflectivity to support market reform and to avoid competitive distortions. Another identified upstream services (excluding the network).

One respondent reflected on how greater transparency on cost allocation would be useful.

Another considered the use of long run costs in the context of water scarcity in the south east.

Two respondents considered that the prioritisation should be left to companies.

Q5 Do you agree with our preference for initially setting high-level requirements for cost reflectivity?

Ten respondents to this question agreed explicitly with our preference for initially setting high-level requirements for cost reflectivity.

The remaining respondents offered general views on cost reflectivity.

Q6 Do you have views on any specific rules we should set to promote cost reflectivity?

Most respondents did not offer views on the specific rules that Ofwat should set to promote cost reflectivity.

Of those that did, one suggested a requirement for companies to objectively justify their charging structures. One respondent suggested that long run marginal costs should be used at water resource zone level. While a further respondent suggested that the ultimate aim should be to incorporate long run costs into charging structures.

A7.3 Standardising wholesale charges

Q7 How material are the incidence effects likely to be for different types of standardisation?

We received a range of responses to this question.

One respondent considered that standardisation of structures could lead to major losses in cost reflectivity. Another considered that changes in structures could be implemented with little or no incidence effects.

One respondent considered that standardising cost allocation rules would less likely cause incidence effects than changing the bases of charging.

One respondent provided an analysis of incidence effects assuming a particular change in charging structures.

Q8 Do you agree with our preference for some level of standardisation of the methodologies that the companies use to derive wholesale charges, but for us not to design and specify companies' tariffs?

Most respondents agreed with our preferred approach for some level of wholesale charge standardisation without Ofwat designing and specifying companies' tariffs.

One respondent drew a parallel to energy network charges, where the transition to standardised methodologies was aided by the requirement for energy network companies to establish charging forums.

A number of respondents suggested companies presenting charges in a standardised manner.

Three respondents disagreed with the proposal for some level of standardisation. Reasons cited included loss of cost reflectivity, and impacts to charging innovation.

Q9 Would it be appropriate for us to prioritise standardisation for certain charges? If so, which ones and why?

Respondents expressed a range of views in relation to standardisation for certain charges.

A number of respondents restated that they did not consider standardisation to be a desirable objective.

One suggested that the main objective for standardised charging should be to improve transparency of wholesale charges to promote retail competition. Another stated a preference for surface water drainage to be charged for separately.

Two respondents considered that ancillary services should be standardised.

One respondent stated that if there were to be any changes to household charges they would take significant time to implement.

Another respondent suggested that standardisation should be focused on areas where it would not create incidence effects or potential conflicts with cost reflectivity.

Q10 Do you have any views on what specific rules we should set to promote standardised charging methodologies?

A number of respondents favoured high-level principles.

One respondent suggested strengthening the accounting separation tables to reconcile more closely to chargeable services.

A7.4 Information and governance

Q11 Do you agree with our preferred option of assessing wholesale price limit compliance through the regulatory accounts?

All but one of the respondents that specifically answered this question agreed with the proposed approach. The respondent that did not agree considered a more ex ante approach would have benefits.

Q12 What would be a suitable data set to support an assurance that charges have no undue preference or discrimination?

Respondents' views were largely split between companies providing assurance to Ofwat, and companies providing ex ante visibility of their charges.

Q13 Do you agree that the same governance process for assessing wholesale charges can be applied to household retail charges?

All but one of the respondents to this specific question agreed that the same governance process for assessing wholesale charges can be applied to household retail charges. The respondent that did not agree reflected on the need for the process to align to the application of social tariffs, and the different forms of price control.

Q14 Do you agree with our preferred option of including considerations of non-household retail charging governance into the annual risk and compliance statements (RCSs), and to check any charges levied by agreement?

Most respondents agreed with the preferred option of including considerations of non-household retail governance into the RCSs.

A number of them suggested that it might not be appropriate for Ofwat to check all charges levied by agreement, and that a risk-based approach may be more appropriate, or just to rely on assurance statements.

One respondent disagreed with the preferred option, stating that publication of tariffs should suffice.

Q15 Do you agree with our preferred option of no longer publishing charges on behalf of companies?

Finally, all but three of the respondents to this specific question agreed with our preferred option of no longer publishing charges on behalf of companies, while two respondents did not agree.

CCWater suggested that if Ofwat no longer published charges on behalf of companies, then guidance or rules on the approach to be taken by the industry should be issued by Ofwat to ensure customers' information needs are appropriately met.

Two others stated that they found it useful for Ofwat to publish charges.

Appendix 8: Draft standard wholesale charging schedule

To provide a degree of transparency to existing retailers and potential new entrants, and to help progress the debate on the extent and form that standardisation should take in the future to support effective markets, we will require companies to populate a 'standard schedule' with their wholesale charges so that they are all presented in the same way.

A draft schedule has been designed for:

- potable (drinking) water;
- sewerage; and
- trade effluent core services.

The schedule below is a draft for discussion. For the avoidance of doubt, we are not enforcing standardisation of charging structures at this time. If companies were to consider that the schedule below does not suitably fit the wholesale charges that they are developing for 2015-16, we are open to counter-proposals made through consultation responses.

Some companies currently have different charges for different geographic areas within their overall company area (some of these may have come about as a result of previous mergers, for example). If companies wished to similarly have different wholesale charges, then multiple versions of the schedule would need to be completed.

In completing a wholesale charging schedule, we expect many fields to be left blank, and for duplicate figures to be entered in some cases. For example, many companies do not have seasonal tariffs; so constant values would be entered for all the different month categories.

Schedule for measured wholesale water supply – potable						
Standing charges	Per annum					
15-19 mm	£a					
20-25 mm	£b					
26-50 mm	£c					
51-100 mm	£d					
101-200 mm	£e					
201 mm and above	£f					
Other applicable fixed charges	Per annum					
Up to 0.5 MI pa	£g					
0.5-1 MI pa	£h					
1-5 MI pa	£i					
5-10 MI pa	£j					
10-25 MI pa	£k					
25-50 MI pa	£l					
50-100 MI pa	£m					
100-250 MI pa	£n					
250-500 MI pa	£o					
500-1,000 MI pa	£p					
Over 1,000 MI pa	£q					
Volumetric charges per m ³ – fixed band	Apr	May	Jun-Aug	Sep	Oct-Mar	
Up to 0.5 MI pa	£g1	£g2	£g3	£g4	£g5	
0.5-1 MI pa	£h1	£h2	£h3	£h4	£h5	
1-5 MI pa	£i1	£i2	£i3	£i4	£i5	
5-10 MI pa	£j1	£j2	£j3	£j4	£j5	
10-25 MI pa	£k1	£k2	£k3	£k4	£k5	
25-50 MI pa	£l1	£l2	£l3	£l4	£l5	
50-100 MI pa	£m1	£m2	£m3	£m4	£m5	
100-250 MI pa	£n1	£n2	£n3	£n4	£n5	
250-500 MI pa	£o1	£o2	£o3	£o4	£o5	
500-1,000 MI pa	£p1	£p2	£p3	£p4	£p5	
Over 1,000 MI pa	£q1	£q2	£q3	£q4	£q5	

Volumetric charges per m ³ – rising block	0-50 MI	50-100 MI	100-150 MI	150-250 MI	250-3,000 MI	Over 3,000 MI
50 MI	£xg1	£xg2	£xg3	£xg4	£xg5	£xg6
100 MI	£xh1	£xh2	£xh3	£xh4	£xh5	£xh6
150 MI	£xi1	£xi2	£xi3	£xi4	£xi5	£xi6
Maximum daily demand charges	Per m ³ per day					
10-25 MI pa	£y					
25 MI and above pa	£z					

Foul, highway and surface water						
	Impermeable area bands (in m ²)					
Standing charge	Band A	Band B	Band C	Band D	Band E	Band F
15-19 mm	£a1	£a2	£a3	£a4	£a5	£a6
20-25 mm	£b1	£b2	£b3	£b4	£b5	£b6
26-50 mm	£c1	£c2	£c3	£c4	£c5	£c6
51-100 mm	£d1	£d2	£d3	£d4	£d5	£d6
101-200 mm	£e1	£e2	£e3	£e4	£e5	£e6
201 mm and over	£f1	£f2	£f3	£f4	£f5	£f6
Other applicable fixed charges	Per annum					
< 0.5 MI pa	£g					
0.5-5 MI pa	£h					
5-20 MI pa	£i					
20-50 MI pa	£j					
50-100 MI pa	£k					
100-250 MI pa	£l					
>250 MI pa	£m					

Volumetric charges	Per m ³				
< 0.5 MI pa	£g1				
0.5-5 MI pa	£h1				
5-20 MI pa	£i1				
20-50 MI pa	£j1				
50-100 MI pa	£k1				
100-250 MI pa	£l1				
>250 MI pa	£m1				
Volumetric charges – rising block	<50MI	50-100MI	100-250MI	>250MI	
50MI	£n1	£n2	£n3	£n4	
100MI	£o1	£o2	£o3	£o4	
150MI	£p1	£p2	£p3	£p4	

Trade effluent	
Standard components	Charge value
R = reception and conveyance charge [p/m ³]	£a
V = primary treatment (volumetric) charge [p/m ³]	£b
Bv = additional volume charge if there is biological treatment [p/m ³]	£c
M = treatment and disposal charge where effluent goes to sea outfall [p/m ³]	£d
B = biological oxidation of settled sewage charge [p/kg]	£e
Ot = Chemical oxygen demand (COD) of effluent after one hour quiescent settlement at ph 7	£f
Os = Chemical oxygen demand (COD) of crude sewage one hour quiescent settlement	£g
S = treatment and disposal of primary sewage sludge charge [p/kg]	
St = total suspended solids of effluent at ph 7 [mg/litre]	£h
Ss = total suspended solids of crude sewage [mg/litre]	£i
	£j

Where charge per m³ of effluent = R + [(V + Bv) or M] + B(Ot/Os) + S(St/Ss).



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May 2014

ISBN 978-1-908116-78-9

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