

Information notice

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2014 price review – updated guidance to companies about our process for assessing their default tariffs

This information notice clarifies the process we will use when assessing the default tariffs each company proposes in its business plan for its non-household customers. This is part of our 2014 price review.

The 2014 price review is our process for setting the price and service packages ('price control') that each monopoly water and sewerage and water only companies in England and Wales must deliver in each of the five years between 2015 to 2020.

Background

In 'Setting price controls for 2015-20 – final methodology and expectations for companies' business plans' (our 'methodology'), which we published in July 2013, we stated we would set up to four separate price controls for each company. These are in the following areas.

- Household retail services.
- Non-household retail services.
- Wholesale water services.
- Wholesale wastewater services.

In relation to non-household retail services, we will set limits on the average revenue per customer for each customer type ('default tariffs'). This will limit the amount of revenue a company can recover from each type of non-household customer that is on a default tariff.

For companies operating wholly or mainly in England, this will help protect all non-household customers before and after they are able to choose their supplier for retail services for water and sewerage services – which is proposed in the UK Government's Water Bill.

For companies operating wholly or mainly in Wales we are setting non-household retail price controls slightly differently. This reflects the wishes of the Welsh Government that choice should not be extended to all non-household customers there. So companies in Wales will also propose default tariffs, but we will use these in a different way to protect customers in Wales.

Companies will propose default tariffs to us as part of their business

plans for 2015-20, which they will send to us by 2 December 2013.

Since we published our methodology we have received queries from some companies about the test we will use to assess the default tariffs they propose. This is one of our 'risk-based review tests' for assessing companies' plans.

We provide extra information and updated guidance about this test below.

Updated guidance to companies

In our methodology we said that this risk-based review test would have two key assessment criteria:

- **“How well do the company's proposed default tariffs ensure it recovers no more than an appropriate proportion of its allowed costs and net margin?”**

This reflects the need for companies to allocate their non-household retail costs and margins across the customer

This is a formal document that alerts our stakeholders to a change in the way that we regulate the water and sewerage sectors in England and Wales.

groups in a cost-reflective and non-discriminatory way.

- **“How adequate is the company’s assurance that its proposed default tariffs do not unduly discriminate between customers in a given customer class or between customer classes?”**

This reflects whether the company’s default tariffs allow all customers to participate in the market and are compliant with Competition Law. Companies will need to explain how they have developed their default tariff proposals and how they have allocated their costs and margins to ensure that an efficient retailer could enter the market and compete fairly. As part of this criterion we emphasised that we would be particularly interested in the proposed default tariffs for smaller non-household customers.

We also suggested that **“we will use a ‘tariff corridor’ approach for 2015-20”**. This means we will test whether companies proposed default tariffs are within ‘corridors’

More information

‘Setting price controls for 2015-20 – final methodology and expectations for companies’ business plans’, July 2013

[2014 price review web pages](#)

or ranges that we will develop. We will base this corridor on comparative information across companies and benchmarks from other relevant sectors. It will help to highlight to us those companies whose default tariffs may be of particular concern. But companies falling outside this corridor will not automatically fail this test.

In carrying out this risk-based review test we will place particular emphasis on the second key criterion and the evidence that companies provide as to whether or not their proposed default tariffs allow all customers to participate in the market and are compliant with competition law.

All companies should take account of this information in preparing their business plan.

Enquiries

If you have any questions about this information notice please email price.review@ofwat.gsi.gov.uk.



Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We are responsible for making sure that the water and sewerage sectors in England and Wales provide consumers with a good quality and efficient service at a fair price.

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