



Note of the Charging working group meeting held 17 April 2014

1. Introduction

Ofwat explained how, following the initial consultation and further discussions with the working group, it had now developed a number of 'minded to' positions. These were yet to be approved by Ofwat's Board, and consequently all discussions at the working group should be viewed in the context of not being final policy positions at this time.

2. High level objectives (provisional)

Ofwat discussed some provisional views about the long term direction of charging. The working group did not raise any objections

3. Bill stability

The group broadly agreed with the minded to position of allowing companies a degree of flexibility in setting their wholesale charges to manage the transitional effects of going from integrated charges to separate wholesale and retail.

However, concerns were raised about the 'minded to' 5% bill increase threshold, over which proportionate impact assessments would be undertaken. Some group members viewed the figure as too low, others considered that it should be set in relation to RPI+K, as K is already agreed as part of the price control.

Ofwat suggested that RPI+K can be relatively meaningless to customers who experience nominal bill changes. The 'minded to' position was not for a firm restriction on charges increasing, simply that a proportionate impact assessment should be undertaken where there where bills were forecast to significantly increase (for a given level of consumption).

4. Cost reflectivity

Ofwat explained a 'minded to' position of not setting any additional requirements regarding cost reflectivity for 2015-16. However, it may be desirable to retain a number of existing features of charging policy. A set of existing features (taken from current charging guidance and companies' charges schemes) was discussed. No substantive issues were raised.

5. Standardised wholesale charges

Ofwat explained the current 'minded to' position of not setting any requirements for standardisation of charging structures for 2015-16 - instead requiring companies to report their charges in a standard manner to provide some initial transparency to retailers, and to help facilitate further debates on standardisation. No substantive issues were raised.

6. Information and governance

Ofwat explained the current 'minded to' position of requiring some information in advance of 2015-16 to help ensure an effective transition to separate wholesale and retail charges. The current thinking is for Ofwat to issue a template once all companies have received their draft determinations (29 August). The timetable for charging publication was also discussed. No substantive issues were raised.

Previously companies had sought confirmation from Ofwat whether they would be required to show separate wholesale and retail charges on the bills they send to customers. As there are arguments both ways for doing so, Ofwat stated that it was not minded to set such a requirement for 2015-16, but to consult on whether such a requirement would be appropriate in future years.

Ofwat stated that in general it would expect companies to engage with customers as to how they would like bills presented, and to engage with CCWater in making significant changes to their charges schemes.

The group briefly discussed some of the different ways that information could be presented. No substantive issues were raised.

7. Other assumptions

Ofwat explained how the Government's charging principle that household customers 'will not subsidise the development of competitive markets for business customers' may mean that wholesale costs relating to market readiness and the Open Water programme should not be recovered evenly across all wholesale charges.

This may result in such costs having to be recovered through a ring-fenced wholesale charge made only to non-household customers.

While some group members reflected on the additional work that would be required for what is a relatively small revenue stream, the importance of Government policy was clearly recognised. Group members considered that such an approach would be deliverable.

Ofwat reiterated the key messages from information notice 'IN 13/19 Allocation of social tariff and surface water drainage concessions cross-subsidies'. No substantive issues were raised.

8. Next steps

Ofwat intends to publish a consultation on wholesale and retail charging and charges scheme rules. A charging working group meeting will be arranged post publication.