

# Information notice

[www.ofwat.gov.uk](http://www.ofwat.gov.uk)

## Approval of charges 2014-15

This information notice provides specific information on the process and the timetable for the approval of each company's charges scheme for 2014-15. A company's charges scheme is a document that:

- fixes the charges that customers have to pay for any services provided by that company in the course of carrying out its regulated duties;
- sets out the terms and conditions of those charges; and
- sets out the times and methods of payment that customers can use to pay their charges.

We formally approve each charges scheme each year.

### Introduction

The approach we will take to approving each company's charges scheme for 2014-15 will be similar to the one we used for the 2013-14 charging year.

We will approve each company's charges scheme on the basis of that company's assurance that it has complied with both its legal obligations and our published charges principles.

Our approval of a charges scheme will not remove from the relevant company accountability for compliance with all relevant legal obligations. Nor will it prevent:

- legal action by third parties in relation to the charges scheme; or
- enforcement action by us in the future for any breach of a relevant legal obligation.

Each company will have full responsibility for proactively:

- providing appropriate charges information and explanation to their customers; and
- answering customer queries on charges-related issues.

In answering customer enquiries, companies should give a full and proper explanation of their charges where a customer challenges them. They should not use our approval of their charges as a defence.

Our charges principles set out our requirements for companies' charges schemes. They are accompanied by guidelines, which set out how the companies could meet the principles, and examples of good practice. We will publish a

final version of our charges principles and guidelines for 2014-15 in October 2013.

### Process applicable to existing appointed companies

#### Company submissions

Each company must send to Ofwat its:

- statement of assurance (see below);
- principal statement;
- measured/unmeasured differential calculation sheet;
- average bill information;
- auditor's report, as required by licence condition B; and
- special agreement information (see below). Companies should only submit this to us after we have approved their charges for 2014-15. This will enable them to complete fully all the sections of the special agreement information capture system.

We will send each company a blank principal statement by email, where applicable, and a special agreement information capture system.

Companies should send their submissions to [service.desk@ofwat.gsi.gov.uk](mailto:service.desk@ofwat.gsi.gov.uk).

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.

## Statement of assurance

In order for us to approve a company's charges scheme, we will require that company to submit to us a statement of assurance on its final charges scheme. The statement should contain the following provisions.

- a) A statement that the company complies with its legal obligations relating to customer charges.
- b) A statement that the company's charges are consistent with our charging principles.
- c) An explanation of any new charges or changes to the tariff structure and how these relate to our charging principles and guidelines.
- d) A statement that the company has appropriate systems and processes in place to make sure that the data and information contained in the charges scheme, principal statement and additional information is accurate.
- e) A statement that the company has consulted the Consumer Council for Water (CCWater) in a timely and effective manner on changes to the charges scheme.

In some situations a company may have recently identified a charging issue that requires it to make changes to its charges in order to comply with its obligations and our charging principles. Where a company has not previously told us about this issue, it should include an explanation in its assurance statement with details of how it intends to address it. Where it has already advised us of a charging issue, we expect that

company to provide an update in the assurance statement on how it is progressing work to address that issue.

The statement of assurance should be signed by the company's Board or a Director of the company, delegated by their Board.

## Principal statement information capture system

A principal statement is a spreadsheet model that sets out a company's standard charges and other information. This allows the average annual change in charges for a particular year to be calculated.

For 2013-14, we asked companies to use an Excel-based model to present their principal statement information. While that model contained all the necessary formulas to enable the overall average increase in charges to be calculated in accordance with licence condition B, it did not include any charges information for the previous year. We left it to companies to input this information themselves in addition to data for 2013-14.

For 2014-15, we will continue to use a similar model but it will contain the previous year's charges information for each company. This is the only change we are making to the principal statement model. We believe this will reduce the amount of time companies spend in completing their principal statements. It will also help us in checking each company's principal statement.

Companies must complete and submit their principal statement to

us in accordance with licence condition B. [Guidance on the completion of the principal statement information capture system](#) is published alongside this information notice. We have also published [guidance on making principal statement entries](#).

## Special agreement information capture system

In their special agreement information capture system each company must provide the following information for each special agreement.

- The name and reference number of customer.
- The volume of water they supplied (or sewerage they took away) in 2012-13. If the start date for the agreement was after 2012-13, the estimated or forecast volume for 2013-14 or 2014-15 respectively should be provided instead.
- The volumetric unit charge for 2012-13, 2013-14 and 2014-15, where applicable.
- Any standing (fixed) charge for 2012-13, 2013-14 and 2014-15, where applicable.
- Any discounts given or allowances made in 2012-13, 2013-14 and 2014-15.
- Total revenue for 2012-13 (final), 2013-14 (estimate) and 2014-15 (forecast).
- The date the agreement comes or came into effect.
- Length of the agreement.
- The date the agreement will be terminated or renewed.
- The exact service being provided. This should also explain why charging the customer under a special agreement is more appropriate

than charging them as a normal customer.

We will use this information if we decide to investigate any possible breach by companies of condition E of their licence relating to charges that they agree with their customers or with other appointed companies.

We will also use the information to update the special agreement register on our website in April 2014. This includes details of old and new bulk supply transactions between appointed companies. The update will provide final, provisional and forecast data for 2012-13, 2013-14 and 2014-15 respectively.

### **The role of reporters and auditors**

Condition B of the companies' licences requires them to provide an auditor's assurance to us about the information they have submitted in their principal statement. On this basis, we expect the principal statement to be accompanied by an auditor's report. We have published our [auditing requirements](#), which have remained unchanged from last year's, alongside this information notice.

We expect companies to own their assurance processes. This means they should determine what they need to put in place to be able to give us a robust assurance. For this reason, we do not require a reporter's report to provide us with additional assurance.

### **Communication of average bill changes**

In previous years, following our

approval of companies' charges schemes, we publish forecast average household bills and other pieces of average bills information for the coming year. We source this information directly from the average bills information that companies provide alongside their principal statement.

We will confirm our arrangements for communicating bill changes with companies later in the autumn.

### **Process applicable to new appointed companies**

We require new appointed companies ('new appointees') to make sure that their charges schemes provide prices and levels of service that are at least comparable to those of the previous appointee for the area they serve.

### **New appointee submissions**

New appointees do not need to send their charges scheme to us. Instead, we require them to send us a statement of assurance. This should be signed by the company's Board or a Director of the company, delegated by their Board. The assurance statement should include the following provisions.

1. The statement must assure us that the company's charges scheme:
  - complies with its legal obligations;
  - offers levels of service at least comparable to the previous appointee's charges scheme;
  - offers prices that do not

exceed those in the previous appointee's charges scheme for similar services; and

- offers prices equivalent to those specified in the new appointee's application for each individual appointment.
2. The company must also state that it has consulted CCWater in a timely and effective manner on the introduction of any new charges. It does not need to wait for approval of the previous appointee's charges scheme before doing this.
  3. The statement must also assure us that any tariffs that are different from those of the previous appointee:
    - are consistent with Ofwat's charging principles; and
    - are no higher than those of the previous appointee.

We will approve each new appointee's charges scheme on the basis of this assurance.

New appointees must also send us a special agreement register.

New appointees should send their submissions to [service.desk@ofwat.gsi.gov.uk](mailto:service.desk@ofwat.gsi.gov.uk).

### **Timetable**

Below is a summary of the key deadlines for the 2014-15 charges approval process.

- 9 October 2013 – Ofwat sends companies a principal statement information capture system and a special agreement information capture system.
- 31 October 2013 – Ofwat

publishes a locked down version of its charges principles and guidelines for 2014-15 on its website.

- 7 January 2014 – companies submit a principal statement and statement of assurance, after finalising their charges schemes.
- 8 January 2014 – companies with new appointees in their area provide a final draft charges scheme to new appointees.
- By end of January 2014 – Ofwat approves companies' charges schemes.
- 7 February 2014 – new appointees submit their statement of assurance.
- 14 February 2014 – Ofwat approves new appointees' charges schemes.
- End February 2014 – companies submit special agreement information.

If a company is incapable of providing us with a statement of assurance and instead submits its charges scheme, we will scrutinise that fully. This could delay our approval of their charges scheme beyond the end of January.

### **Social tariffs**

Guidance has been published by both the UK and Welsh Governments on the design and implementation of social tariffs facilitated under section 44 of the Flood and Water Management Act 2010. Our charging principles reflect this development and companies should highlight any new social tariff in their statement of assurance.

The guidance from both Governments provide indicative

levels of cross subsidy above which it might be more difficult to gain customer acceptance and evidence of good targeting. Any company intending to introduce a social tariff which produces a higher level of cross subsidy than specified must discuss its proposal with Ofwat substantially before submitting its statement of assurance.

Social tariffs are not mandated under the Flood and Water Management Act 2010. However, our expectation is that all companies and new appointees should offer such tariffs where appropriate. Companies that have not yet done so but intend to in the near future should include a note in their assurance statement setting out their plans and timetable for implementation. Companies that do not intend to offer such tariffs at all should include a note to explain the reason for their decision.

### **Expectations for existing charges**

Companies' costs and customers' needs change over time. So, we expect companies to periodically review their charges to ensure that they continue to meet their obligations. This includes making sure their charges are consistent with our charging principles.

Following discussions at our tariffs workshop with stakeholders in June 2012, we committed to producing a plan showing when and which area of tariffs we wished to review. Since then the UK Government has published its Water Bill which will – among other things – introduce

changes to charges governance from 2015-16. Because of this we have decided to suspend any further work to review tariffs until those changes have been confirmed. In the meantime, it is still up to companies to identify which of their charges need to be reviewed to enable them meet their legal obligations and our charging principles.

We will consult on the practical implications of the Water Bill's changes to charges in autumn 2013.

We indicated in 'Charging principles and guidelines 2013-14' that we were intending to review the companies' policies and practices for operating surface water drainage rebates. We have started this review but do not expect it to conclude in time for 2014-15.

### **General information**

#### **Retail price index for November 2013**

The Office for National Statistics will publish the retail price index (RPI) for November 2013 at 9.30 am on 17 December 2013. Companies will need this figure to complete their principal statement. We have already inserted the November 2012 RPI figure into the principal statement model.

#### **CCWater's role**

As part of their assurance statement, we require companies to confirm that they have consulted CCWater on changes to their charges schemes.

CCWater's role in charges approval is representative and advisory. It has no power of veto.

We expect that CCWater will advise companies on:

- customer acceptability for both existing and new charges; and
- appropriate ways for companies to communicate and to implement the changes.

We will take CCWater's views into account when making any decisions about the approval of charges schemes.

### Resolving issues found after approval

Our approach to carrying out checks on companies' charges after we have approved them will be consistent with our overall risk-based approach to regulation. But after the expected changes to charges governance from 2015-16 have taken effect, we will consider how we can tailor this generic approach more directly to charges regulation.

### Enquiries

If you have any questions about charges approval, please email [mailbox@ofwat.gsi.gov.uk](mailto:mailbox@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.**

## More information

['Guidance for completing the principal statement information capture system for 2014-15 charges approval'](#), October 2013

['Guidance for completing the principal statement information capture system for 2014-15 charges approval Appendix 1: Making principal statement entries'](#), October 2013

['Principal statement auditing requirements for 2014-15 charges approval'](#), October 2013

[Company licences webpages](#)

[Delivering proportionate and targeted regulation – Ofwat's risk-based approach](#), March 2012

['Company Social Tariffs: Guidance to water and sewerage undertakers and the Water Services Regulation Authority under Section 44 of the Flood and Water Management Act 2010'](#), UK Government, June 2012

['Guidance to water and sewerage companies and the Water Services Regulation Authority \(Ofwat\), in relation to social tariffs under section 44 of the Flood and Water Management Act 2010'](#), Welsh Government, March 2013

[Understanding Ofwat – a glossary of the most commonly-used Ofwat terms](#)



Ofwat  
Centre City Tower  
7 Hill Street  
Birmingham B5 4UA

Phone: 0121 644 7500  
Fax: 0121 644 7699  
Website: [www.ofwat.gov.uk](http://www.ofwat.gov.uk)  
Email: [mailbox@ofwat.gsi.gov.uk](mailto:mailbox@ofwat.gsi.gov.uk)

October 2013

© Crown copyright 2013

You may reuse this information (excluding logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, visit <http://www.nationalarchives.gov.uk/doc/open-government-licence/version/2/> or email [psi@nationalarchives.gsi.gov.uk](mailto:psi@nationalarchives.gsi.gov.uk).

Where we have identified any third party copyright information, you will need to obtain permission from the copyright holders concerned.

Any enquiries regarding this publication should be sent to us at [mailbox@ofwat.gsi.gov.uk](mailto:mailbox@ofwat.gsi.gov.uk).

This document is also available from our website at [www.ofwat.gov.uk](http://www.ofwat.gov.uk)

