

# Information notice

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## 2014 price review – setting price controls for Cholderton and District Water for 2015-20

This information notice sets out how we will set price controls for Cholderton and District Water ('Cholderton Water') at the 2014 price review. Cholderton Water serves about 700 customers. This makes it significantly smaller than the other monopoly companies for which we set price controls. The company is also smaller than some of other small companies ('new appointments') for which we do not set individual price controls.

The 2014 price review is our process for setting the price and service packages ('price controls') that each monopoly water and sewerage and water only company in England and Wales must deliver over the five years between 2015 and 2020. Each company must send us its business plan for 2015-20 by 2 December 2013.

### Background

At previous price reviews, we set Cholderton Water a 'simplified' price control. This was to reflect the small size of the company and to ensure we applied proportionate regulation.

In 'Setting price controls for 2015-20 – final methodology and expectations for companies' business plans' (our 'methodology'), which we published in July 2013, we set out how we set price controls for the companies. As part of this, we confirmed our approach to regulating small companies like Cholderton Water at this price review. Specifically, we confirmed that we would:

- not set separate wholesale and retail controls for small companies, and consequently not use an average cost to serve or default tariff approach, as these would form part of a retail control;
- set a simplified control for Cholderton Water, using a process that includes a simpler business plan and a different approach for assessing its plan (our 'risk-based review'); and
- consider whether to develop rewards and penalties (an 'incentive') to encourage small companies to improve their services.

In setting Cholderton Water's simplified price control for the 2014 price review, we have considered:

- which parts of our methodology should apply to the company; and
- how we should apply them.

We set out our decisions below.

### Our approach for setting Cholderton Water's price control for 2015-20

#### Form of price control

We will set Cholderton Water a single annual water price limit (a 'K factor') for each of the five years between 2015 and 2020. This is a similar form of price control to the one we set in 2009 for the 2010-15 period.

The company will be able to change its overall charges to its customers by the K factor plus inflation each year. Inflation is measured by the annual increase in the all items Retail Price Index in November each year.

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.

This approach is consistent with the approach we are taking for setting the price controls for wholesale water and wastewater services for other larger companies.

### **Cost assessment and recovery**

We will not apply our total expenditure ('totex') or menu regulation ('menus') price setting tools to Cholderton Water in the same way as we do for other companies. Instead, we will ask the company to provide us with a single figure for all of its day-to-day ('operating') and investment ('capital') expenditure for the period 2015-20.

### **Business plan and risk-based review**

We will not apply the same approach we are using for assessing companies business plans (our 'risk-based review') to Cholderton Water. But we expect the company to produce a simplified business plan, which we will then review. We will make our draft and final decision ('determinations') at the same time as those we make for companies whose business plans we have classified as 'standard' quality.

### **Outcomes and customer engagement**

Like other companies, Cholderton Water has a customer challenge group (CCG). CCGs are independent groups of customers and customer representatives that challenge how well each company engages with its customers in developing its plan. Each CCG will

send us a report on the quality of its company's customer engagement at the same time as we receive companies' business plans in December.

We will expect Cholderton Water to show evidence in its business plan that it has engaged with its customers. We also expect the company to engage with its CCG to agree simple, long-term objectives ('outcomes') for its services.

But we consider it disproportionate to require Cholderton Water to propose the incentives that it should receive for delivering its outcomes ('outcome delivery incentives'). So we have not made this a requirement for the company.

### **Network management, network plus and the abstraction incentive mechanism (AIM)**

In our methodology, we said that we will:

- introduce an incentive (the 'abstraction incentive mechanism' – or AIM) to encourage companies to take water out of the environment ('abstract' it) from where it is more plentiful and does less damage to the environment; and
- take steps to improve the way we regulate all companies' networks when we next set prices in 2019. We said that we will phase in the introduction of two new tools – 'network management' and 'network plus' – designed to reveal information

about companies' network and management policies.

After considering the relevance, applicability and proportionality of applying these tools to Cholderton Water, we have decided that we will not apply them to the company's price control.

### **Service incentive for small companies**

In our methodology, we confirmed we would consider developing a small company service incentive. This is because we:

- do not currently have information on the performance of small companies; and
- are concerned that small companies might face weaker incentives to improve their services to their customers.

We will consult on this service incentive at a workshop with Cholderton Water and new appointments in November 2013.

### **Water trading and water trading incentives**

In our methodology, we confirmed that we are introducing incentives to encourage companies to trade water, where this is the best option for balancing supply and demand.

We consider that water trading is relevant for all small companies and is something they may wish to pursue. So, we propose that water trading is an option that should be available to new appointments. Water trading incentives could also be applied to Cholderton Water.

We will consult on applying water trading incentives at our workshop with small companies in November 2013.

## Enquiries

For any enquiries contact Clair Daniel on 0121 644 7518 or by email at [price.review@ofwat.gsi.gov.uk](mailto:price.review@ofwat.gsi.gov.uk).

## More information

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

[New appointments web pages](#)

[2014 price review web pages](#)

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