

# Information notice

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## Adapted approach for default tariffs

In [‘IB 28/13: Change to Ofwat’s price review process’](#) we explained that we have removed the determination of default tariffs from the risk-based review.

This note sets out our next steps for setting default tariffs.

### Background

For 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.

We are setting default tariffs for customers in both England and Wales, but they will be applied in different ways. This is to reflect the different legal frameworks (because the Water Bill will give all non-household customers served by companies wholly or mainly in England the right to switch suppliers from 2017).

On 24 October 2013, we provided further clarification on our process for assessing default tariffs in [‘IN 13/14: 2014 price review –](#)

[updated guidance to companies about our process for assessing their default tariffs’](#).

In the resulting business plans there were a number of issues with the default tariffs. We are therefore introducing an adapted approach to setting default tariffs. This will help ensure that sensible and operable default tariffs are in place in time for final determinations (12 December 2014).

### The adapted approach

Similar to the risk-based review, we will be relying on data table R4 to set default tariffs. But we are proposing to provide **more guidance** on how this table should be completed.

To help inform this guidance we are asking companies to submit by 1 March 2014 all relevant models which they used to construct their default tariffs.

We will then consider this information and engage with companies via a workshop to discuss the issues associated with tariff design and cost allocation. Updated guidance

regarding how companies should submit R4 data tables will be published in early April.

Companies will then have until 15 May 2014 to submit table R4 and all supporting information.

Following the May submission, we will run a short query process to clarify any unexpected or unsubstantiated data.

This will enable us to produce draft determinations for default tariffs in line with the timeline for ‘standard’ draft determinations (that is, 29 August 2014).

Any companies that we assess to be ‘enhanced’ will receive their draft determinations early (as planned) in April, but the determinations will exclude decisions on default tariffs.

### Next steps

By **1 March 2014**, we require companies to submit to us:

- any models they have used to construct their default tariffs (that is, in making sure that the sum of their charges are equal to

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.

- expenditure plus a net margin);
- any models they have used to allocate their costs and margins to each default tariff; and
  - detailed explanations of the data capture and quality assurance of allocative variables (for example, where costs are allocated in line with volume of customer contacts, details on where the contact number comes from and the associated assurance process it has undergone).

By **15 May 2014** (following our updated guidance) we require companies to submit R4 data tables and all supporting information.

## Enquiries

If you have any questions or comments on our approach to default tariffs, please send them to [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

'IN 13/14: 2014 price review – updated guidance to companies about our process for assessing their default tariffs', October 2013

'IB 28/13: Change to Ofwat's price review process', December 2013

2014 price review [web pages](#)



**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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January 2014

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