

Information notice

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2014 price review – timetable for setting charges for 2015-16 and making menu choices

This information notice sets out the timing and process for incumbent companies to set their wholesale and retail charges and the timing of their menu choices. This is part of our 2014 price review.

We are providing this information to companies now to enable them to consider these issues before sending information to us by 3 October 2014.

This is our deadline for all stakeholders to give us their views ('representations') on our draft decisions ('determinations') of companies' price controls.

Background

The 2014 price review is our process for setting the price and service packages ('price controls') that each incumbent company must deliver over the five year period 2015-20.

In '[Setting price controls for 2015-20 – final methodology and expectations for companies' business plans](#)' (our 'methodology'), we confirmed that we are setting separate controls for each company for:

- water wholesale services;
- wastewater wholesale services;
- household retail services; and
- non-household retail services.

This will require the companies we regulate to set charges separately for each of these controls.

In addition, we confirmed that we will use menus as part of the price setting process for water and wastewater wholesale price controls. Menu regulation provides an incentive for companies to reveal accurate information about their expectations of future costs. A menu also provides a framework which allows companies a degree of flexibility to determine their:

- expenditure used in setting the overall price control revenue allowance; and
- cost sharing incentive rate – the rate at which cost overruns and outperformance are shared between customers and shareholders.

Our proposed menus for enhanced and non-enhanced companies are set out in the draft determinations.

Timetable and process for setting charges for 2015-16

Our draft determinations set out the revenue controls with which companies are required to comply when setting their charges. It is then for companies to propose actual charges (both wholesale and retail) which comply with these revenue controls.

In '[Draft price control determination notice: technical appendix A8 – charging](#)', which we published in August 2014, we stated that if the required legislation to enable a charging rule framework had not been brought into force in time, we would revert to a charging approvals process. We have now decided that given how close we are to the new charging year, and the likely consultation period required for any government guidance, that it is highly unlikely that the new framework will be in place for 2015-16 charges.

So we will operate a charging approvals process for 2015-16.

The timetable and process for setting companies' wholesale and retail charges is as follows.

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

3 October 2014	Companies are required to provide us with information on their proposed charges so we can identify in advance any unacceptable bill impacts on customers, and seek to intervene (early) on a risk-based approach where necessary.
November 2014	Informed by the information we receive from companies on 3 October, we will set out the information requirements we need to operate the approvals process.
12 December 2014	We will set out in full our views on companies' initially proposed charges when we publish final determinations.
16 January 2015	Companies are required to provide us with their charges schemes, assurances, and any other information requirements we have set out to inform our approvals process.
2 February 2015	Companies will be required to publish their charges in line with the final determinations by this time, which need to be will compliant with all their duties and obligations (including competition law).

Timetable and process for making menu choices

As set out in our methodology, we will allow companies to make their menu choice after we have set out our independent cost assessments. We will set out our independent cost assessment as part of the final determinations on 12 December 2014. We will consider:

- additional information that companies have provided us on their actual 2013-14 costs; and
- representations on the draft determinations.

We require companies to notify us of their menu choices by 16 January 2015. This will align with companies' submissions of their charges schemes.

We consider that menu choices (even extreme ones) are likely to have a relatively small impact on allowed revenue and customer bills in the 2015-20 period. The only impact from menu choices on customer bills in 2015-20 will be

from the effect on allowed expenditure and additional income (the latter of which partially offsets the former).

The choice of cost sharing rate would impact on bills in 2020-25 as it will be dependent on actual expenditure in the period 2015-20. **So we consider that any adjustment to companies' revenues from the menu choice should be made as a part of PR19.**

This approach avoids the need to revisit revenue allowances following the final determinations. The final determinations will take account of the implied menu choice based on the ratio of a company's proposed expenditure as submitted in its business plan (adjusted for representations where appropriate) and our menu cost baseline set out in the final determinations. We will also consider any representations on the implied menu choice received in response to the draft determinations.

Next steps

We are publishing this information notice now to help give companies time to reflect on these issues ahead of the 3 October deadline for representations on draft determinations.

Enquiries

If any company has any questions about the content of this information notice, they should contact their allocated portfolio lead. If any other stakeholders have questions about this information notice, please send them to price.review@ofwat.gsi.gov.uk.

More information

2014 price review web pages

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

Draft determinations of companies price controls web page

'Draft price control determination notice: technical appendix A8 – charging', August 2014

'Consultation on wholesale and retail charges for 2015-16 and charges scheme rules', July 2014

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