

Information notice

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Approval of charges 2015-16 – our approach, process and information requirements for large and small companies

This information notice sets out our approach and process for approving the charges of water only and water and sewerage companies in England and Wales for 2015-16. We also set out the information that companies will need to send to us as part of this process.

The 2014 price review is our process for setting the price and service packages ('price controls') that each monopoly company must deliver over the five years between 2015 and 2020.

On 12 December, we will publish our final decisions ('determinations') for the period 2015-20. The determinations set out the allowed revenues that companies can recover from their customers and from non-household retailers. Companies are responsible for converting the allowed revenues into charges.

Background

The Water Act 2014 sets out a 'charging rule' framework that means that Ofwat will no longer be

required to 'approve' companies' charges. Instead, we will set charging rules with which companies will be required to comply.

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.

In '[IN 14/15: 2014 price review – timetable for setting charges for 2015-16 and making menu choices](#)', we confirmed that we would be operating a charging approvals process for 2015-16 given how close we were to the new charging year, and the likely consultation period required for any government guidance.

We also stated that we would set out in November the information requirements we would need to operate the approvals process, and that these requirements would

be informed by the charging information that companies provided us on 3 October.

We recognise that the 3 October submissions were not companies' definitive views of their 2015-16 charges, as a number of factors will need to be updated – for example, the final revenue allowances in line with the final determinations, and November RPI. But we still expected the draft charges to be generally well developed given that final publication was only four months away, and given the critical importance of companies providing robust and appropriate charges.

Overview of charges approval

This is a crucial point in the price review process. The charges that companies set are those that customers face through the bills they receive, and that competing retailers face through the margin that they are to compete against. Poorly structured charges can lead to unacceptable fluctuations in bills, discrimination between

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.

customer types non-compliance with the revenue controls, and can potentially lead to cases of (illegal) margin squeeze.

It is the responsibility of companies and their Boards to ensure that this does not happen – because it is companies and their Boards that must guarantee the appropriateness of their charges. If companies are later found to be in breach of licence conditions, or other duties and obligations, because of the charges they have set, we may take enforcement action against the companies concerned (for example, a breach of licence conditions can result in a fine of up to 10% of turnover).

From 2015-16, there will be a fundamental change in how companies develop their charges as we have moved from a single integrated control to four separate controls: wholesale (water and wastewater) controls and retail (household and non-household) controls. This supports the significant market reforms introduced by the Water Act 2014, which include introducing choice for all non-household customers in England from 2017. So it is more important than ever that companies' Boards are deeply engaged with the new charges schemes, and provide rigorous assurance as to their suitability.

As with previous years, we will approve companies' charges schemes first and foremost on the basis of companies' assurance that they have complied with their legal obligations.

Companies' Boards are required to provide us with a statement of assurance that includes the following.

- a. The company complies with its legal obligations (including competition law) relating to the charges set out in its charges schemes.
- b. The Board has assessed the effects the new charges have on customers' bills for a range of different customer types, and approves the impact assessments and handling strategies developed in instances where bill increases for particular customer types exceed 5%.
- c. The company has appropriate systems and processes in place to make sure that the data and information contained in the charges scheme, and additional information is accurate.
- d. The company has consulted the Consumer Council for Water (CCWater) in a timely and effective manner on its charges schemes.

The statement should also make it clear how the Board has assured itself of the above conditions. We remain committed to transparency; therefore companies will need to publish their assurance statements.

While companies' Boards remain accountable for the assurance processes for the development of charges, it is clear in some cases

from the draft set of charges that some companies have significant deficiencies with their charges schemes with less than four months to charging publication. So we consider it appropriate to set some additional requirements to help ensure that companies have undertaken suitable checks and balances, so that customers can receive robust and appropriate charges.

In setting this additional information requirement we have taken a risk-based approach, in which we have assessed how well developed companies' draft charging proposals were when they provided them to us alongside their draft determination representations on 3 October.

In order to identify those companies that must provide additional information and/or assurance, we have assigned companies to one of three 'tiers'. This is separate from the risk-based assessment we have undertaken of companies' business plans as part of the price review process, although it is relevant to our consideration of companies' broader future regulatory reporting requirements, where we are considering the responses to our recent [consultation on regulatory reporting](#). In line with a risk-based approach, each tier is required to provide us with a different level of assurance.

In '[Approval of charges 2015-16 – information and requirements for large and small companies](#)' we have set out further information about our approach and the

information we require from companies. This includes information on:

- our risk-based approach;
- standard wholesale charging schedule;
- special agreements;
- our approach for small companies;
- details of information requirements; and
- details of categorisation.

Next steps

The 18 largest companies will need to provide us with their information

by **16 January 2015** for us to approve their charges ahead of publication on **2 February 2015**. Small companies will be required to send us their statements of assurance by **6 February 2015**.

We set out the upcoming key charging milestones below.

In future years we do not expect to run a charging approvals process, as the approvals framework will be replaced by charging rules as a result of the Water Act 2014 (see our '[Consultation on wholesale and retail charges for 2015-16 and charges scheme rules](#)' for further

details). We will consult on whether the rules-based framework will include any ex ante information provision in due course.

Enquiries

If you have any questions about charges approval, please email mailbox@ofwat.gsi.gov.uk.

Date	Milestone
12 December 2014	Tier 3 companies provide Ofwat with an update of how they are seeking to address each of the issues we have identified.
16 January 2015	The 18 largest companies provide us with their charges schemes, assurances, and the other information requirements set out in the supporting document, and provide any new appointees in their area with their charges schemes.
End of January 2015	Ofwat approves the 18 largest companies' charges schemes.
2 February 2015	The 18 largest companies publish their charges schemes.
6 February 2015	The small companies (see section 4 of the supporting document) submit their statements of assurance.
13 February 2015	Ofwat approves small companies' charges schemes.
End of February 2015	All companies submit their special agreement information.

More information

[2014 price review web pages](#)

[‘Approval of charges 2015-16 –information and requirements for large and small companies’](#), November 2014

[‘Consultation on wholesale and retail charges for 2015-16 and charges scheme rules’](#), May 2014

[‘Draft price control determination notice: technical appendix A8 – charging’](#), August 2014

[‘IN 14/15: 2014 price review – timetable for setting charges for 2015-16 and making menu choices’](#), September 2014

[‘Consultation on regulatory reporting’](#), September 2014

[Special agreement information capture system template](#)

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