

Information notice

IN 16/02 March 2016



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.

Information requirement on publication of indicative wholesale access charges for 2017-18

This information notice sets out the information that companies holding appointments as water undertakers and/or sewerage undertakers whose areas are wholly or mainly in England (water companies) will need to publish on indicative wholesale access charges for 2017-18. We are looking for this information to be published by October 2016 to facilitate a level playing field in the non-household retail market before market opening in 2017.

This information notice was revised on 18 March 2016.

Background

From April 2017, 1.2 million businesses and non-household customers of providers (water companies) wholly or mainly in England will be able to choose their retailer. Ahead of this time we will consult on and set wholesale access charging rules for wholesale charges.

Wholesale access charges are the charges that new retailers (including new entrants and sister companies of existing water companies) will have to pay water companies in return for the provision of bundled wholesale water and wastewater services to support retail service provision. These charges represent a substantial component in the charges faced by

end users (customers) and are key to ensuring an effective non-household retail market.

In preparing for market opening, in our final determinations of the 2014 price review (PR14), we set separate binding price controls for wholesale services, household retail services and non-household retail services for the 18 largest water companies ('large water companies').

The determinations set the total revenue controls that cover all revenues from water and (separately) wastewater wholesale activities, including that received from connection charges. These controls have been set for a duration of five years. Water companies are then free to set their charges, within the

constraint of legislation and other relevant legal requirements, to recover their allowed revenues. Licence conditions allow us to require large water companies to publish charges for the purpose of demonstrating compliance with our price controls for wholesale activities.

The Water Act 2014 will modify the Water Industry Act 1991 (WIA91) to require us to set charging rules for charges made by water companies to water supply and sewerage licensees ('access charges').

On 1 September 2015 we issued [Consultation on charges scheme rules for 2016-17 and future developments](#), where we indicated that we would require large water companies to provide us with their wholesale charges scheme for 2016-17 wholesale charges in January 2016 (later refined via an information notice to no later than 14 January 2016). We also sought views on the benefits and limitations around early publication of indicative wholesale charges and on a proposal to make an early publication of indicative wholesale charges in July, and a second publication in October, which companies would not be able to revise other than for the updating for the November RPI.

On 17 November 2015 we issued [Final charges scheme rules and summary of responses to our draft charges scheme rules](#) where we outlined our intention to consult on and issue wholesale access charging rules in 2016, ahead of retail market opening. As part of this November 2015 document we highlighted that given the process we are required to follow for setting charging rules, we were unlikely to set wholesale access charging rules early enough in 2016 to allow publication

of earlier indicative wholesale charges before the retail market opening. We therefore highlighted our intention to request indicative wholesale charging information via an information notice that we would issue in February/March 2016.

While we can now confirm our intention to set wholesale access charging rules before market opening, the process we are required to follow still means that these rules will not be set early enough in 2016 to ensure that indicative wholesale charging information is available to retailers at an appropriate time. We are therefore required to issue this information notice to request this information. Publication of indicative wholesale charging information will facilitate a level playing field in the non-household retail market. It will allow retailers sufficient time to develop their retail pricing proposals ahead of the beginning of the charging year.

Publication of 2017-18 indicative wholesale access charges

Publication of indicative wholesale access charges will not only facilitate a level playing field in the non-household retail market it will provide an opportunity for any changes to wholesale access charges to be reflected in central systems handled by the market operator.

In asking for indicative charges to be published we recognise that there is a trade-off between early information on charges and the reliability of such information. We also note that there was widespread resistance to our September proposal that indicative wholesale access charges be published in July and October.

Having considered concerns and recognising that we will be consulting on wholesale access charging rules soon, we expect the large water companies to publish indicative wholesale access charges for 2017-18 by October 2016. As part of this we expect these large water companies to provide us assurance that these charges are the charges the companies expect to set for 2017-18 (based on the information available to them at that time) and that they comply with all the relevant legal requirements. We also expect these large water companies to notify stakeholders in July 2016 if they anticipate significant changes to their wholesale access charging structures in 2017-18 and what those changes may be.

Information on indicative wholesale access pricing can be provided in any format suitable to ensure transparency, although we welcome the use of the standard wholesale schedule template.

We will consult later this year on requirements for the publication of wholesale access charges, including indicative charges, from 2017 onwards.

Special agreements

In accordance with section 142(6A) of WIA91, all water companies are required to notify us of the provision of any new special agreements they enter into with their customers. We are required to enter on our register (and therefore put in the public domain) such information about such agreements as we consider fit.

The services provided under special agreements are contestable to the same extent as retail services in the wider non-household retail market. The large water

companies should therefore look to publish this information as part of their wholesale access charges and notify us, for the purpose of the special agreement register, the wholesale and retail charges that apply where a special agreement is entered into.

Where a special agreement is in place, the large water companies will need to set wholesale charges in such a manner as to comply with competition law (for example, they must not give rise to a margin squeeze).

Companies can send the provisions of any new agreements to:

special.agreements@ofwat.gsi.gov.uk

Next steps

We will be consulting on the requirements for the publication of wholesale access charges from 2017 onwards in the coming months.

Enquiries

If you have any questions about this information note please email:

charging@ofwat.gsi.gov.uk

More information

[IN 15/15 Charges schemes from 2016-17 – moving from an approval process to a rules-based approach to regulating charges schemes](#), Ofwat, November 2015

[Final charges scheme rules and summary of responses to our draft charges scheme rules](#), Ofwat, November 2015

[Charges scheme rules issued by the Water Services Regulation Authority under sections 143\(6A\) and 143B of the Water Industry Act 1991](#), Ofwat, November 2015

[Charging guidance to Ofwat](#), Defra, January 2016

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

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