



Note of the Charging working group Meeting held 31 January 2014

1. Introduction and purpose

Ofwat explained the context of the working group: to inform Ofwat's policy development on charging reforms, given the splitting of companies' charges into wholesale and retail components as part of the price review methodology, and the water bill enabling Ofwat to set charging rules. For the avoidance of doubt, the working group is not a decision-making body; the objective will be to allow Ofwat to appraise the relative merits of different options

The overall timeline for charges schemes was discussed, it was noted that the issuance of final rules would be very late for companies to take account of in their 2015-16 charges schemes. It was explained that this was a necessity given the timing of legislation. However, it was not expected that the final rules for 2015-16 should differ significantly to the draft rules set out for consultation in 2014. It was also recognised that Ofwat will be able to set new rules on an ongoing basis, and so would be able to update rules for future years given lessons learnt and any change in the political context.

The interaction with the accounting separation and new connections workstreams was noted.

The group agreed the terms of reference – subject to the terms making more explicit that the group can add value by advising on the practical implementation issues of charging scheme reform.

2. Objectives

The group noted that often in discussions about reform, water receives more attention than sewerage, and that the charging reform work should not lose sight of the importance of sewerage.

The group discussed the importance of bill stability. One group member noted that the level of risk-aversion of companies to changing billing systems could not be

overestimated. It was widely recognised that bill stability is an important objective. It was debated whether glide-paths could either be used as a way of phasing in change, or whether the glide-paths were actually allowed non-compliance with the rules. It was recognised that glide-paths could delay the benefits being passed to certain customers.

The group discussed opportunities for charges to be used to send more effective price signals. It was noted that there may be greater variability in sewerage costs than water. It was suggested that all proposed changes should be stress-tested against the long term future direction. Consultation with customers will be very important in making any major changes.

The standardisation of wholesale tariffs was discussed. Some group members viewed it as 'essential' for the effective operating of the non-household retail market in England from 2017. It was also noted that standardisation would likely reduce set-up costs of the market operator.

It was suggested that there should be some scope for retailers to negotiate bespoke tariffs with wholesalers. It was noted that some charges are likely to be highly bespoke due to historical reasons, but there may be scope to standardise the majority of wholesale charges.

A 'menu' approach was proposed, whereby companies could produce their charges in a set format to provide retailers with suitable transparency. This could be seen as a pragmatic compromise as it would allow some degree of variability in structures across the industry.

It was noted that some degree of equivalence between household and non-household charges may be desirable, especially where a property were to change its status.

Due to overrunning, the group was unable to discuss access pricing. Group members were requested to send responses to the discussion paper published in November 2013.

3. Next steps

Ofwat will set up the next meeting which will discuss analysis/materials produced by the group as well as options for the process for splitting charges and overall governance arrangements.