

# Information notice

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## Approval of charges 2013-14

### Introduction

This information notice provides specific information on the timetable and process for the approval of companies' charges schemes for 2013-14.

The approach we will take to charges approval from 2013-14 will be to approve each company's charges scheme based on the company's assurance that it has complied with its legal obligations and our principles. The principles set out our requirements for companies' charges schemes. They are accompanied by guidelines, which set out how we think companies should meet the principles, and Ofwat's view of good practice.

We will publish a locked-down version for 2013-14 charges in October.

New appointees will provide assurance that their charges schemes meet the conditions of their appointment as detailed below.

We conducted a lessons learned exercise with stakeholders on the 2012-13 charges approval process and held a workshop to discuss refinements on 12 June 2012. The feedback was that the charges approval process worked well and that we only needed to make slight improvements. The charges approval process set out in this note is broadly the same as that for last year, but with minor changes designed to iron out the challenges that arose.

### Timetable

Below is a summary of the timetable for the approval of companies' 2013-14 charges.

- 18 December 2012 – November RPI published.
- 8 January 2013 – companies submit principal statement and statement of assurance, after finalising their charges schemes.
- 9 January – companies with new appointees in their area provide a final draft charges scheme to new appointees.

- By 31 January – Ofwat approves charges schemes.
- By 31 January – companies with new appointees in their area advise new appointees of any changes between final draft and approved charges scheme.
- End January – Ofwat publishes average household bills.
- End February – companies submit special agreement information.
- By 8 February – new appointees submit statement of assurance.
- By 15 February – Ofwat approves new appointees' charges schemes.
- Companies communicate bill changes after approval.
- March to April – after-action review of the charges approval process.

If a company is incapable of providing a statement of assurance and instead submits its charges scheme for full scrutiny, the same timetable for submission applies but we will be unable to approve those charges schemes by the end of January.

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.

## Process applicable to existing appointees

### Company submissions

Companies must **submit to Ofwat** their:

- statement of assurance (see below);
- principal statement;
- special agreement information;
- average bill information
- auditor's report, as required by licence condition B; and
- measured/unmeasured differential calculation sheet.

Companies are not required to submit:

- a charges scheme;
- large user information;
- consistency calculations;
- auditor's report for matters outside licence condition B; or
- reporter's report.

### Principal statement information capture system

With the retirement of the Reservoir system we have reverted to an Excel-based principal statement (PS) model, which has already been sent to each company.

Companies must complete and submit their principal statement to us in accordance with licence condition B. [Guidance on the completion of the PS](#) is published alongside this information notice.

### Retail price index for November 2012

The Office of National Statistics will publish the retail price index (RPI) for November 2011 on 18 December 2011 at 9.30 am.

Companies will need this figure and the corresponding figure for November 2010 to complete section 0 of their PS model.

### Special agreement information capture system

We will be updating the special agreement register on our website with information for 2011-12 in April 2013. Companies should provide the necessary information in the capture system.

The information that companies provide will be our first reference point should we decide to investigate any possible breach of condition E with regards to charges that companies agree with their customers.

### Statement of assurance

In order for us to approve a company's charges scheme, we will require it to submit to us a statement of assurance on its final charges scheme. The statement should contain the following provisions.

- a) A statement that the company complies with its legal obligations relating to customer charges.
- b) A statement that the company's charges are consistent with Ofwat's charging principles.
- c) An explanation of any new charges or changes to the tariff structure and how these relate to Ofwat's principles and guidelines.
- d) A statement that the company has appropriate systems and processes in place to make sure that the data and information contained in the charges scheme, principal

statement and additional information is accurate.

- e) A statement that the company has consulted CCWater in a timely and effective manner on changes to the charges scheme.

Where the company has a long-term strategy for dealing with known charging issues, it should also explain the issues and its strategy for attaining compliance with the principles in its assurance statement.

The statement of assurance should be signed by the company's Board or a Director of the company, delegated by their Board.

### The role of reporters and auditors

Condition B of the companies' licences requires them to provide an auditor's assurance to us about the information they have submitted in the principal statement.

On this basis, we expect the principal statement to be accompanied by an auditor's report. Please see section 11 of the PS guidance, which sets out our auditing requirements.

We expect companies to own their assurance processes and determine what they need to put in place to be able to give a robust assurance. We no longer require a reporter's report, and it is for companies to decide whether to use reporters to enable them to give that assurance to us.

## Expectations for existing charges

Companies' costs and customers' needs change over time, meaning that companies' charges should be periodically reviewed to make sure they continue to meet companies' obligations.

The issue of tariff review was discussed at our workshop with stakeholders on 12th June, at which we were requested to produce a plan showing where we planned to review tariffs generally. While we will do this, it is still up to companies to identify which of their tariffs may be out of line with legal obligations and our charging principles, and to undertake their own reviews.

## Social tariffs

Guidance has been published by Defra in relation to companies wholly or mainly in England and is due to be published by the Welsh Government in respect of companies wholly or mainly in Wales on the design and implementation of social tariffs facilitated under section 44 of the Flood and Water Management Act 2010. We have amended our charging principles to reflect this development and, in so doing, roll up any new social tariff in the statement of assurance provided by companies.

The Defra guidance includes an indicative level of cross subsidy above which customer acceptance might not be gained. Any company intending to introduce a social tariff with this level of cross subsidy or greater must discuss their proposal with Ofwat substantially before submitting its statement of assurance.

## Process applicable to new appointees

### Statement of assurance

We require new appointees to make sure that their charges schemes provide prices and levels of service that are at least comparable to those that their customers would have received had the previous appointee supplied them.

New appointees do not need to submit their charges schemes to Ofwat. Instead, they are required to submit a statement of assurance as follows.

1. The statement must assure us that the company's charges scheme:
  - complies with its legal obligations;
  - offers levels of service at least comparable to the previous appointee's charges scheme;
  - offers prices that do not exceed those in the previous appointee's charges scheme; and
  - offers prices equivalent to those specified in the new appointee's application for each individual appointment.The company must also state that it has consulted CCWater in a timely and effective manner on the introduction of its charges. The company need not wait for approval of the previous appointee's charges scheme before doing this.
2. The statement must also assure us that any tariffs that are different from those of the previous appointee:

- are no higher than those of the previous appointee; and
- are consistent with Ofwat's charging principles.

We will approve each new appointee's charges scheme on the basis of this assurance.

## Special agreement information capture system

We will be updating the special agreement register on our website with information for 2011-12 in April 2013. New appointees should provide the necessary information in the capture system.

The information that companies provide will be our first reference point should we decide to investigate any possible breach of condition E with regards to charges that companies agree with their customers.

## General information

### Communication of bill changes

Following approval of all companies' charges schemes, we will publish forecast average household bills for the charging year. We will source this information directly from the information provided alongside the principal statement.

Companies have full responsibility for proactively providing appropriate information and explanation to their customers and answering customer enquiries. The fact of Ofwat's approval should not be a substitute for, or first line of defence in, a full and proper explanation of a company's charges when challenged.

## Resolving issues found after approval

Our approval does not remove from companies the accountability for compliance with all relevant legal obligations. Nor does our approval of a charges scheme preclude legal action by third parties in relation to the charges scheme or individual charges or enforcement action by us for any breach of a relevant legal obligation.

Our approach to checks after approval will be consistent with that developed in our regulatory compliance project. The issue was discussed at our workshop on 12 June, and we are considering what tailoring of the overall approach to charges regulation might be sensible and helpful for stakeholders.

## CCWater's role

As part of their assurance statement, we require companies to confirm that they have consulted CCWater on changes to their charges schemes.

Its role is representative and advisory.

We expect that CCWater will advise the company on customer acceptability, communicating changes to customers and phasing in any changes. We will take CCWater's views into account when making any decisions about the approval of charges schemes. This does not amount to CCWater having any power of veto in charges approval, since it will be acting at all stages in a representative and advisory capacity.

## After-action review of 2013-14 approval

Following the 2012-13 charges approval process we undertook an after-action review of the process asking for views from the companies and CCWater. This was a valuable exercise in identifying improvements to the process. So, we intend to review the 2013-14 process in the same way. We will be in touch with stakeholders following the approval of charges for 2013-14.

## More information

Guidance for completing the principal statement information capture system



Ofwat  
Centre City Tower  
7 Hill Street  
Birmingham B5 4UA

Phone: 0121 644 7500

Fax: 0121 644 7699

Website: [www.ofwat.gov.uk](http://www.ofwat.gov.uk)

Email: [mailbox@ofwat.gsi.gov.uk](mailto:mailbox@ofwat.gsi.gov.uk)

October 2012

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